

**THE RELATIONSHIP BETWEEN ECONOMIC
LIBERALISATION AND TOURISM IN THE
CONTEMPORARY MIDDLE EAST**

**A Comparative Political Economy Study of
Egypt, Syria, and Jordan**

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A Thesis Submitted for the Degree of Doctor of Philosophy
of The Australian National University

November 1999

DECLARATION

I hereby declare that this thesis is my own work, except where references in the text or footnotes state otherwise. To the best of my knowledge and belief, this work does not contain material previously written, published, or otherwise broadcast by a person other than myself, nor material which to any significant extent has been accepted for the award of any other degree or diploma of a university or institute of higher education, except where acknowledgement is made in the text or footnotes. I also hereby certify that the work contained in this thesis has not been submitted by myself for any other degree, diploma, or other educational award to any other university or institute of higher education.

A handwritten signature in dark ink, appearing to read 'Matthew Barry Gray', with a stylized flourish at the end.

Matthew Barry Gray
Canberra, Australia
19 November 1999

ACKNOWLEDGEMENTS

There are innumerable people who have made this thesis, and my survival through it, possible. The few short words I grant them here does not begin to do justice to the help, support, and encouragement they have provided me.

Professor Amin Saikal, the Director of the Centre for Arab and Islamic Studies (Middle East & Central Asia) at the Australian National University (ANU), was the Chair of my supervisory panel and my most important source of scholarly advice and feedback on my work. Amin always made himself available to me, despite his enormous commitments to his other research students, his teaching, and his own research. Beyond this, Amin continually provided me with support, advice, and encouragement on all manner of issues, from my career to my academic publishing to my thinking on broader Middle Eastern issues outside the boundaries of this thesis. He also showed incredible patience, as the thesis slowly evolved over nearly five years of full- and part-time study. Amin helped me to look beyond my thesis while at the ANU, encouraging me to study Arabic and Persian language, to publish, to tutor, and to keep time available for friends and family. Amin has been a supervisor, a mentor, a confidant, and above all, a good friend.

Dr Michael Humphrey, Senior Lecturer in Sociology at the University of New South Wales in Sydney, was my external adviser. Michael has been a teacher and source of advice to me for a long time, dating back to 1992, when he taught a Master's course that I took. With very little warning, he read this thesis in its entirety and provided me with invaluable comments. Michael is an incredibly sharp thinker and talented theoretician, and for as long as I have known him, he has put his ideas at my disposal.

Dr Kirill Nourzhanov from ANU read a draft of the entire thesis and gave me detailed ideas and suggestions about it. Kirill has become a very close friend over the years, and is one of the few people who can stand to watch Leslie Nielsen movies with me, but has also been a source of intellectual stimulation. This thesis is not the first piece of work that he has helped me to greatly improve upon.

Robert Springborg and Andrew Vincent, both of whom taught me when I was an undergraduate and Masters student at Macquarie University in Sydney, also contributed to this thesis. It was Bob who originally suggested a topic similar to that of this thesis as a Master's essay. Both Bob and Andrew nurtured my academic development; in Andrew's case this included providing me with enormous support for my Masters thesis, which encompassed the encouragement to undertake fieldwork in Yemen, to begin publishing, and to consider doing a doctorate.

At Austrade, my manager Jim Enright deserves a special thankyou. Jim brought me into Austrade knowing full well that I had a thesis hanging over my head that was only half completed, and yet gave me all the support imaginable to finish it. I will always be grateful to him for giving me a chance to prove myself at Austrade, and for all the work he has put into my career development and to giving me new challenges and experiences.

Ghassan Zarifeh at Austrade and my father-in-law Allen Svoboda are the two people who have done the most, outside of an academic setting, to nurture and develop my interest in, and understanding of, the Middle East. Both Allen and Ghassan are native Arabic speakers with a wealth of knowledge about the Middle East from their years living there and working in the region. Both of them encouraged my study of Arabic — it is despite their help and encouragement that I still can't speak it or read it competently — and both encouraged my interest in such things such as Arabic calligraphy and Middle Eastern culture and business practices. They have both taught me a great deal about the Middle East, of things that often cannot be found in textbooks and come only after decades of experience in, and intimacy with, the region.

One of the most important sources of support has been my friends in Sydney and Canberra. They include Nick and Wendy and Peter and Peta in Sydney, Craig and Ros in Canberra, and at the ANU Kirill, Jacinta, Reza, Michael, Raj, Steve, Angus, Minerva, Bruce, Christina, Chrissy, Daryl, and many others. Carol at the Centre was always available to help with administrative issues and Chris with material at the Centre's library.

I am also grateful to the ANU for funding provided for my fieldwork in 1996. I met a number of people during the fieldwork, at least one of whom has become a good friend, who gave me their time, their insights, and their views, for which I am very grateful.

My family in Sydney have always supported me in my studies and in everything I have done. My parents have always been supportive of my studies, interests, and ambitions; I will always owe them a great debt of gratitude. My father, Barry Gray, deserves special mention for reading a draft of the thesis in its entirety. With an accountant's eye for detail, he found a number of errors that otherwise would have probably made it to the examiners.

Finally, I would like to thank my wife, Yasmine, who was an unending source of support and comfort, even though she was also completing her own doctorate during several years that I was working on mine. She has been incredibly patient with me, not least of all during the final weeks of preparing this thesis, when my mood swings would have driven most other people away. It would be an incredible understatement to say that she has been wonderful to me since the day we met.

ABSTRACT

Since the promulgation of *al-infitah* ("opening") by Egypt's then-president Anwar Sadat in 1974, economic liberalisation has gradually taken a more salient role in the political economies of the Middle East. Concomitant with this has been the growing position of tourism, as a source of economic development in the region. This thesis brings together these two trends, from a political economy approach, and analyses the political dynamics underpinning their relationship, using the case studies of Egypt, Syria, and Jordan.

The study concentrates on the period since the pronouncement of *infitah*. It argues that there are generic reasons for the economic liberalisation of tourism, which hold in the case studies presented as well as throughout much of the world. However, the deeper elements of the relationship, including the political relationships and other dynamics that link tourism and economic liberalisation, vary state-by-state. Contemporary Egypt and Syria have in many ways been conditioned by their revolutionary backgrounds, where Jordan's political economy has evolved differently under its monarchy. In Egypt and Jordan, international pressures have played a much stronger role in the liberalisation process and tourism policy, while in Syria the political dynamics, often orchestrated by the ruling elite and in particular the president, have been of paramount importance.

This thesis concludes not only with a framework for looking at the relationship between tourism and economic liberalisation, but also with the possible lessons that this relationship affords scholars and observers of the region. The 1990s have witnessed growing pressure in the developing world to open economies to the global market, while tourism, because of its perceived economic (and by extension, political) benefits, has also become a feature of economic development strategies through the world. Regardless of the path that Egypt, Syria, or Jordan chooses in economic or tourism policy, it is unlikely, therefore, that the relationship between the two will diminish in the foreseeable future.

TABLE OF CONTENTS

Declaration	ii
Acknowledgements	iii
Abstract	v
Table of Contents	vi
List of Tables and Figures	ix
Map of the Middle East	x
CHAPTER ONE	INTRODUCTION
	1
	Basic Assumptions and Definitions of Key Terms
	4
	A Summary of the Study and Its Main Arguments
	8
	The Structure, Scope, and Limits of the Study
	13
	The Place of the Thesis in Broader Research
	17
CHAPTER TWO	TOURISM AND THE MIDDLE EAST
	21
	Actions, Images, and Itineraries: The 'Construction' of International Tourism
	23
	The Evolution of International Tourism and the Nature of Contemporary International Tourism
	27
	Actors in a Tourism Sector: The State, the Private Sector, and the International Dimension
	35
	<i>The State</i>
	35
	<i>The International Tourism Industry</i>
	39
	<i>The Indigenous Private Sector</i>
	41
	Tourism in the Middle East: Past Approaches and Policies
	46
	<i>Islam, Middle Eastern Culture, and Tourism</i>
	47
	<i>The Evolution of Tourism Policy in the Post-Colonial Middle East</i>
	49
	Tourism and Economic Liberalisation
	55
CHAPTER THREE	ECONOMIC LIBERALISATION AND THE MIDDLE EAST
	60
	Markets or Planning? The Foundations of Political Economy
	63
	The Evolution of Political Economy Thought and the Origins and Development of State-Led Economic Management in the Middle East
	65
	Economic Liberalisation in the Middle East: Some Conceptual and Theoretical Ideas
	74
	<i>Critiques of Economic Liberalisation</i>
	79
	The Course of Economic Liberalisation in the Middle East: A Comparison of Egypt, Syria, and Jordan
	84
	<i>The Origins of Economic Liberalisation: Key Political Features and Dynamics</i>
	84
	<i>The Course of Economic Liberalisation</i>
	87
	<i>Tourism and Economic Liberalisation</i>
	92

CHAPTER FOUR	THE CASE OF EGYPT	94
	Background: Economics and Tourism Under Nasser	98
	<i>Infitah</i> and Tourism Under Sadat	100
	<i>Tourism Under Sadat</i>	107
	Liberalisation and Tourism Under Mubarak	110
	<i>Liberalisation and Tourism in the 1980s</i>	111
	<i>Liberalisation and Tourism in the 1990s</i>	118
	<i>The Privatisation of Tourism: Methods and Results</i>	120
	<i>Other Tourism Reforms Since 1991</i>	124
	The Relationship between Economic Liberalisation and Tourism: The Political Dynamics	128
	<i>The Role of the Egyptian Government</i>	128
	<i>The Public Sector, Economic Liberalisation, and Tourism</i>	133
	<i>The Private Sector, Economic Liberalisation, and Tourism</i>	136
	<i>Egypt's Islamists, Liberalisation, and Tourism</i>	138
	<i>Economic Liberalisation, Tourism, and Peace with Israel</i>	140
	Concluding Remarks	142
CHAPTER FIVE	THE CASE OF SYRIA	145
	The Economic Liberalisation of Tourism	148
	<i>The Beginnings of Economic Liberalisation, 1969-1971</i>	148
	<i>The First Infith and the Liberalisation of Tourism</i>	150
	<i>The Second Infith and Tourism</i>	153
	The Regime and the Relationship between Economic Liberalisation and Tourism	156
	Non-State Actors and Forces and the Relationship between Economic Liberalisation and Tourism	165
	<i>The Business Elites</i>	165
	<i>The Private Sector Middle Class</i>	170
	<i>Opposition to Economic Liberalisation and Tourism</i>	173
	Economic Liberalisation and Tourism: International Factors	175
	Concluding Remarks	182
CHAPTER SIX	THE CASE OF JORDAN	187
	The Evolution of Tourism in Jordan	188
	Economic Crisis and Tourism Policy: The 1980s	193
	The 1990-91 Gulf War and Tourism	200
	Tourism and the Acceleration of Economic Reform: The 1990s	202
	The Peace Process and Tourism	209
	Concluding Remarks	215

CHAPTER SEVEN	CONCLUSION: OBSERVATIONS ON THE RELATIONSHIP BETWEEN ECONOMIC LIBERALISATION AND TOURISM IN THE MIDDLE EAST	220
	Aspects of the Relationship between Economic Liberalisation and Tourism	222
	<i>Economic Problems, Economic Liberalisation, and Tourism</i>	222
	<i>Social Actors as a Link between Economic Liberalisation and Tourism</i>	226
	<i>Radical Islamic Groups, Economic Liberalisation, and Tourism</i>	230
	<i>International Actors and Events in the Relationship between Economic Liberalisation and Tourism</i>	232
	Egypt, Syria, and Jordan: Lessons for Economic Liberalisation and Tourism	235
Bibliography		239
	<i>Books and Book Chapters</i>	239
	<i>Reports, Working Papers, Theses, and Speeches</i>	252
	<i>Journal Articles</i>	255
	<i>Magazine and Other Media Articles</i>	260
	<i>Other Sources</i>	265
	<i>Interviews</i>	265

LIST OF TABLES AND FIGURES

Tables

Table 2.1	State Involvement In Tourism: Modalities, Actions and Examples	37
Table 2.2	International Tourist Arrivals in the Middle East	56
Table 2.3	International Tourism Receipts in the Middle East	56
Table 4.1	Economic 'Boom' in a Rentier Economy — Egypt, 1974-1981	105
Table 4.2	The Fluctuation of Tourism in the 1980s	112
Table 4.3	Tourism Assets Identified for Sale, 1996-98	122
Table 4.4	Tourism to Egypt in the 1990s	125
Table 4.5	Private Sector Growth in Tourism Investment in Egypt, 1982/83 — 1992/93	126
Table 5.1	Tourism to Syria — Number and Income, 1988-1998	181
Table 6.1	The 1967 Arab-Israeli War and Tourism to Jordan	190
Table 6.2	Jordan — Visitor Arrivals and Tourism Revenue, 1988-1997	204
Table 6.3	An Economic and Tourism Comparison between Jordan and Israel	212

Figures

	Map of the Middle East	x
Figure 2-A	The Economic Structure of World Tourism, 1996	29
Figure 2-B	Linkages and the Inter-Relationship of Actors in Tourism	45
Figure 2-C	The Liberalising Trend of Tourism Policy in the Middle East, 1950s-1990s	54
Figure 3-A	Egypt: Trends in the Economic Liberalisation Process	90
Figure 3-B	Syria: Trends in the Economic Liberalisation Process	90
Figure 3-C	Jordan: Trends in the Economic Liberalisation Process	91
Figure 4-A	The Tourism Privatisation Process	123
Figure 4-B	The Over-Liberalisation of Tourism? A Map of Tourism Development Areas in Egypt	134

Note: Maps are originally from the Central Intelligence Agency, United States of America, and have been taken from the University of Texas at Austin website at http://www.lib.utexas.edu/Libs/PCL/Map_collection/middle_east.html

MIDDLE EAST



CHAPTER ONE

INTRODUCTION

Since the end of colonialism and mandate governments in the Middle East, Arab regimes have struggled with the problem of identifying and implementing systems of government and economic management which will deliver economic growth and social stability, without threatening the regime which undertakes, and identifies itself with, such processes.

During the colonial period, the governments in the Arab world chose, almost without exception, liberal models of economic management. This was typically the outcome of a tripartite political alliance between the wealthy, landed commercial classes, the indigenous aristocracy, and the colonial overlords. Such a system satisfied the colonial power, whose aims were as much economic as political or strategic, and ensured that the commercial classes maintained their wealth, largely aloof from the political manoeuvrings of the aristocracy whose main, though not sole, motivation in forming such alliances was political rather than economic.

Immediately after the colonial period, Arab governments briefly experimented with liberal models of political economy, and the institutions of democracy. Beginning in the early 1950s, however, many of the old regimes of the colonial era were replaced by revolutionary leaderships, who overwhelmingly viewed state-led growth, and a centralised — or at least state-managed — economy as the path to economic modernisation and thus social and political development. This transformation did not occur uniformly throughout the region or in all of the Arab states, but the majority saw a version of this transformation. Of the states under consideration in this thesis, Egypt and Syria witnessed a 'radical' regime transformation in the 1950s and 1960s, characterised by policies of social development, import substitution industrialisation, state-led economic management,

and usually by the emergence of patrimonial-authoritarian political systems. In Jordan, the transformation to a state-led political economy was more gradual but nonetheless deliberate and pronounced.

More recently, especially since the promulgation of *al-infitah al-iqtisadi* ("economic opening") in Egypt in 1974 by the late president Anwar al-Sadat, Arab regimes have gradually moved towards a more liberal policy of economic management, stressing export-led economic growth, integration into the world economy, and a laissez-faire government approach to the economy as the new solution to attaining economic development. That the Arab Middle East seems to be approaching 'full circle' in its development strategy has presented scholars with an array of questions, on the origins of economic liberalisation, its political outcomes and implications, the social responses to liberalisation, and the more ideological question of whether economic liberalisation presents a viable alternative to earlier economic strategies.

While scholarly debate about economic liberalisation in the Middle East remains in its infancy, it is surprising nonetheless that so little attention has been paid to the tourism sector in the Arab Middle East. Of course, the Middle East does not immediately conjure up images of a Western tourist's paradise; the visions of instability, cultural and political stereotypes, and a landscape devoid of all but desert serve to create a perception that the Arab states are anything but a tourist destination. The reality is that the tourism potential of the Middle East is considerable, not just in leisure tourism, but also other areas such as religious pilgrimage, health tourism, and conference, seminar, cultural and educational tourism. States such as Egypt, Morocco, Tunisia, Jordan, Israel and Turkey already receive large numbers of tourists; several million a year in most cases. Even in more peripheral states tourism has evolved into a vital economic sector; in Yemen, for example, 30 percent of non-oil foreign income is derived from tourism. The importance of tourism to the economies of the Arab Middle East is likely to expand greatly in the future.

Although the Middle East tourism industry accounted for less than five percent of the value of world tourism in 1991,¹ its anticipated growth rate between 1995 and 2005 is some 235 percent.² This prediction assumes progress in the Arab-Israeli peace process, of course, but even if the peace process were to disappear, other Middle East states, especially those on the periphery of the Arab-Israeli front line, could continue to develop their tourism sectors.

There has been a simultaneity between the expansion of tourism and the evolution of economic liberalisation which, at least *prima facie*, suggests a link of some description between the two processes. To be sure, there are exceptions to this trend, especially during periods of uncertainty such as the 1990-91 Gulf War, during and immediately after which economic liberalisation continued to dominate the reform agendas of many Arab states, even as tourism in the region suffered a massive decline, albeit a short-term one. The relationship between liberalisation and tourism, therefore, is more complex and manifold than simply a concomitant expansion or contraction of the two.

Some general arguments may be made about the relationship by considering the economic liberalisation of tourism — by using an economic approach to the question, in other words — but is there a reverse relationship, where tourism has an impact on the processes and outcomes of economic liberalisation, perhaps because of a political intermediary such as the state, a social force, or the impact of cultural intercourse stemming from tourism? The relationship may also be assessed from a political angle, by posing questions about the political actors and forces which are present in both the tourism sector and the forces of liberalisation in Arab political economies, and which thus form a link between the two. Another approach may place tourism and economic (or political) liberalisation into an international context, and seek to explain the international forces and factors which create an overlap of

¹ Robert Vitalis, "The Middle East on the Edge of the Pleasure Periphery", *Middle East Report*, 196, September-October 1995, p. 5.

² World Travel and Tourism Council, quoted in Mukul Pandya, "All Signs Point East", *Time Australia*, June 12, 1995, pp. 58-59.

tourism and the economic reform process. It is the aim of this study to identify and analyse these various facets of the relationship, from a political economy perspective.

BASIC ASSUMPTIONS AND DEFINITIONS OF KEY TERMS

The thesis adopts a political economy approach to the study of the relationship between an economic policy and an economic sector. In that sense, the study is interested in the political dynamics of an economic policy, as manifested in a particular aspect of a society and economy. 'Political economy' is a difficult term for which to find a fully encompassing definition, partly because its meaning has changed substantially over time. Until the nineteenth century, political economy meant what 'economics' means in the contemporary world; no distinction was made between economics and political economy because, besides the fact that the discipline was in its infancy, economics was seen as inherently political. This was partly the result of a state-centred analysis of the financial management of a country or region — an approach which has diversified since — but even then, much of what is economic is political, in the sense that when people with unlimited wants contend for limited resources, their relationships and positions of power are invariably a factor in determining the outcome.

A broad definition of the basic foundation and assumption of political economy, is that it is "the study of rational decisions in the context of political and economic institutions".³ This is a useful starting point, although as will be evidenced in this study, the decisions made by political and economic actors are not always rational. More precisely, political economy is concerned with the political dynamics which impact on economic decisions and behaviour, and the economic concerns

³ J. Alt & K. Shepsle (eds), *Perspectives on Positive Political Economy* (Cambridge: Cambridge University Press, 1990), p. 2, paraphrased in Jeffrey S. Banks & Eric A. Hanushek, "Introduction", in Jeffrey S. Banks & Eric A. Hanushek (eds), *Modern Political Economy: Old Topics, New Directions* (Cambridge: Cambridge University Press, 1995), p. 1.

which influence political or governmental decisions, thereby joining the otherwise separate disciplines of economics and political science. The benefits of this approach are obvious: one of the shortcomings of economic theory has been its inability to explain irrational behaviour by mathematical calculation. The reason, obviously, is that rational economic actors also face political considerations which cannot be evaluated in an economic formula isolated from various hazard forces and exogenous considerations.

The study of institutions alone, however, does not fully answer questions about the political economy of an entity such as a state or a region. One of the shortcomings of recent political scholarship has been an emphasis on institutions and the study of formal and informal elite interaction in the policy-making process at the expense of informal groups, mass politics, and social forces. This has produced, in the fields of sociology and political science especially, a sub-field of deconstructionist scholarship. This has concentrated on minority politics, on groups excluded from direct power and influence in the political process, and more broadly — and more useful for this thesis — on the role of social forces in indirectly influencing political dynamics. This approach remains comparatively less explored in political economy, although considerable study has been made already on topics such as social reform (in the political economy of health, for example), and the social aspects of political economy (such as the political economy of public safety or the environment). This thesis attempts to include social forces and other non-elite actors in its analysis of the relationship between liberalisation and tourism.

Liberalisation, in its broadest sense, is "defined as any policy action which reduces the restrictiveness of controls" on activity within a state or between states.⁴ In Egypt, economic liberalisation is generally accepted to have begun with the reduction of trade barriers in 1974 and 1975, a policy change which was termed *al-infatah*, or '[economic] opening'. The term *infatah* remains in wide use as an Arabic

⁴ Armeane M. Choksi & Demetris Papageorgiou, *Economic Liberalization in Developing Countries* (Oxford: Basil Blackwell, 1986), p. 16.

term for liberalisation. The removal of controls or restrictions may take different forms, or occur to varying extents from state to state. Also, different states will be starting from different degrees of liberalism, or control, in their political economy or society. Since this makes both the above definition of liberalisation and the term *infatih* very broad, it is also possible to restrict the definition of economic liberalisation, to "any measure which strengthens the role of the market in the economy".⁵ In the Middle East, and elsewhere for that matter, this more specific definition is almost invariably accurate given that economic liberalisation usually signals a (partial) withdrawal by the state from economic management and planning. Furthermore, it often indicates an implicit recognition that the private sector and market forces, albeit under some government supervision, can more effectively deliver needs and wants to society than can the public sector.

Liberalisation is also applicable to the political sphere. Political liberalisation takes on a number of guises. The most obvious, and the one which has gained the greatest attention in Middle East studies in recent years, is democratisation, where the barriers or restrictions to political participation and government accountability are eased or removed. Beyond democratisation, which is often little more than the advent of controlled electoral politics, political liberalisation may take the form of greater freedom of political participation, or increased freedom for the media or for communication. Political liberalisation also has an international dimension, influencing and manifesting in relations between states. This in turn often has an impact on domestic politics and the economic liberalisation process. The effects of closer international political ties on tourism, whether the result is diplomatic or economic, are obvious — open borders, visa-free travel, the removal of internal travel restrictions, and closer banking and foreign exchange links all have the potential to stem from improved international political relations and are of benefit to the tourism sector.

⁵ Tim Niblock & Emma Murphy (eds), *Economic and Political Liberalization in the Middle East* (London: British Academic Press, 1993), p. xiii.

The definition of tourism, like that of liberalisation or of political economy, is also contentious and complex. A good starting point is to take tourism as being any journey undertaken that lasts at least one night, but not more than one year, and involves the traveller being one hundred kilometres or more from his or her usual place of residence.⁶ Such a definition includes travel for a multitude of reasons — business, health, education, pilgrimage, visiting friends — and is not a measure of leisure tourism alone. Its strength, of course, is that it specifically excludes travel which is clearly not tourism, such as commuting, short visits within or near a person's place of residence, as well as migration and expatriation.

To define a measure of international leisure tourism, which is a focus of this thesis, is extremely difficult. Even governments with access to extensive border, customs and immigration statistics do not rely solely on their own figures for detailed tourism trends and quantitative analyses. More often they will undertake a quantitative or qualitative survey of people who enter the state, and develop some statistical generalisations from this small but representative survey. The main reason why even customs and immigration statistics are misleading is the nature of international travel: few travellers visit a state for only one reason. A business traveller, for example, may spend most of his or her time in a state undertaking business activities, but many also spend their evenings and weekends much the same way that a tourist does, by undertaking leisure and sightseeing activities. This thesis analyses the relationship between economic liberalisation and international leisure tourism. Despite the difficulties mentioned in obtaining an accurate picture of leisure tourist numbers and trends, the effect on the arguments of the thesis is minimal, since much of what concerns this study is the dynamics of politics and political economy as they relate to tourism, and not the detailed economic performance measures of the Middle Eastern tourism sector. Tourism statistics and trends, where identified and discussed, are used as indicative evidence of a policy impact or an

⁶ This definition is partly drawn from Gareth Shaw & Allan M. Williams, *Critical Issues in Tourism: A Geographical Perspective* (Oxford: Blackwell, 1994), p. 5-7.

exogenous event which has influenced tourism. As outlined below, this study is not a detailed analysis of tourism trends, even if it undertakes some discussion of them.

A SUMMARY OF THE STUDY AND ITS MAIN ARGUMENTS

This thesis is an analytical study of the relationship between liberalisation and tourism in the Arab world, concentrating on the experiences of Egypt, Syria and Jordan over approximately the past two decades. The aim of the present work is to join liberalisation and tourism in a single study, and to illustrate the ways in which the two are interconnected and related. Until this point, liberalisation and tourism have been examined in isolation, with little attention having been paid to their relationship with each other. More specifically, each case study takes the unique features of liberalisation and tourism in the state under discussion, and attempts to outline and explain both the similarities between the three states, and the lessons afforded by the experiences of each. The emphasis from the tourism angle is largely, though not exclusively, on international leisure tourism, and the emphasis from the liberalisation angle is largely, but also not exclusively, on the economic liberalisation process.

In the case of Egypt, discussed in Chapter Four, a significant feature of the analysis is that state's long experience with economic liberalisation, beginning with *al-infitah* in 1974 and undergoing several stages since that time, including a period of substantial and rapid economic liberalisation and reform since 1991. Egypt is also an interesting case study because of its wealth of tourist attractions and its long history as a tourism destination. Egypt has been attracting visitors to the pyramids since several centuries BC, and was the first part of the Middle East to experience guided, 'package' tourism when the Thomas Cook Company began organising visits for wealthy European travellers in 1869.⁷ The chapter argues that, until 1991,

⁷ On the Thomas Cook Company and its development of guided tourism in the Middle East in the nineteenth century, see John Pudney, *The Thomas Cook Story* (London: Michael Joseph, 1953),

political imperatives restricted the Egyptian government's willingness to undertake economic reform, or liberalisation in the tourism sector and elsewhere in the economy. While this had little effect on the desire of foreign tourists to visit Egypt, it did have a significant negative impact on the efficiency of the tourism sector and on Egypt's earnings from tourism. Since 1991, economic liberalisation in Egypt has greatly accelerated, with tourism having become a salient sector in the economic reform process. However, the result of this accelerated liberalisation has been mixed, particularly since the privatisation process has not unfolded as quickly as originally planned. Furthermore, there appears to have been little thought given in Egypt to the negative consequences of too rapid an expansion and liberalisation of tourism. Finally, the chapter considers the extent to which Islamist attacks against tourism find their sources in economic and political liberalisation, and the ways in which this implies an indirect negative interaction between liberalisation and tourism in Egypt.

Syria, covered in Chapter Five, is not so much a unique case study, as much as an example of how liberalisation and tourism are intertwined in a state where economic liberalisation has come very slowly and where political liberalisation has been almost non-existent. The tourism potential of Syria is stifled not only by economic problems, but also by largely inaccurate Western perceptions of Syria as a dangerous, inhospitable place. As the reform and liberalisation of tourism in Syria increases, and given the political stability which the Asad regime has so far managed to maintain within Syria, the potential for further development of tourism is considerable. The only caveat to this is the succession question, which may prove less traumatic than many observers predict.

Jordan is a very different example to Egypt and Syria, and is examined in Chapter Six. It did not pass through a 'radical', Arab nationalist political phase in the 1950s and 1960s, in contrast with Nasser's Egypt or Ba'athist Syria. Therefore, in the 1980s and 1990s, when economic liberalisation and reform have proved necessary,

chapters 19-23. This thesis also contains further details on Thomas Cook in the case study chapter on Egypt.

Jordan has not had to contend with the same political changes and ideological constraints as its neighbours. Nonetheless, Jordan has faced serious problems in developing its tourism sector and, to an even greater extent, in implementing economic liberalisation and other reforms. The Jordanian tourism sector is also different from those of Egypt and Syria; apart from the single spectacular site of Petra, there is little else which is unique in Jordan. Therefore, in developing and expanding the tourism sector the government has had to accept that most tourists who visit Jordan will not stay long, and may base themselves in a neighbouring country. The chapter argues that Jordanian efforts at promoting tourism have been very successful and earnest — earning the country a reputation for professionalism and aggressiveness in tourism marketing — but that the liberalisation of tourism has been a feature of policy for similar reasons to Egypt and Syria, despite the structural differences of its economy.

In all cases, the liberalisation of tourism finds its over-riding motivation in the desire of governments to earn greater revenue and hard currency from tourism, to solve unemployment problems, and to divest responsibility for economic management from the state to the seemingly more efficient private sector. Beyond this similarity, each case study also highlights some unique situations and examples of each state. The variations between each state occur through differing social or economic structures, or because of their different labour skills and experiences with tourism. It makes a number of overall conclusions. The first, and perhaps the most obvious, is that tourism is viewed as a cure for the economic ills which most countries of the region are suffering: rapid population growth and high unemployment, a shortage of foreign currency, a stall in private investment, savings, and injections of funding from taxation revenues, and the need to diversify the structure of their economies in light of changes in the global economy and the inefficiencies of state-led economic development.

Beyond the above points, which despite their political manifestations are

largely economic in nature, there is also a strong political motivation in the development and expansion of tourism. Tourism is not an economic sector in which political elites have traditionally been very active or held a strong interest, and despite the common argument that tourism fosters greater inter-cultural understanding and the exchange of ideas, there appears to be little political impact on the host from greater numbers of foreign visitors. In certain cases, most notably that of Syria, the state has in fact fully nurtured the new elites in the tourism sector; incorporating them into the fringes of the political circle, establishing a symbiotic relationship between the regime and the key business elites in the tourism sector, and using a carrot-and-stick approach to ensure that greater wealth in the tourism sector does not translate into greater political power. In Egypt and Jordan this has also been the case, but far less obviously.

The study of tourism also affords lessons for economic liberalisation more broadly. First are the perils associated with an overzealous, overly rapid, or ill-conceived liberalisation program, whether the reference is to political or economic liberalisation. In other parts of the world, tourism has shown a long-term trend towards a Darwinian-type model of expansion: rapid expansion and development, and then typically a decline from the self-injurious effects of over-development. Places such as Atlantic City in the United States, Pattaya in Thailand, or Acapulco in Mexico have become so 'over-touristed' that potential tourists have begun to look elsewhere for more original, less meretricious destinations.⁸ While it is difficult to nominate a Middle East city or site that has reached this point, the very beginnings — the warning signs — are evident in the most heavily visited tourist sites of the region, such as the pyramids at Giza, the old city of Jerusalem, and the main market of Marrakesh, Morocco. One of the lessons of the liberalisation of tourism seems to be that, to avoid the self-destructive effects of tourism, liberalisation must be

⁸ This concept of the fluctuating appeal and self-destructive nature of tourism, often referred to as the 'Tourist Cycle' by tourism geographers, is further explained and analysed in Shaw & Williams, *op. cit.*, pp. 83-84 (Box 4.2).

calculated and implemented at a suitable speed, and over-development avoided.

Tourism also offers other lessons for liberalisation. A number of economic and econometrical studies have considered the optimal pace and extent of liberalisation in developing economies. One of the most comprehensive of these studies made the conclusion that, in the absence of domestic market decontrol and a liberalised price structure, rapid liberalisation almost invariably fails and competitiveness in the world economy is unachievable.⁹ The more successful economic liberalisations, such as those of China, Vietnam, and Chile in the 1980s, were undertaken very gradually — and are still in process at present — and reforms have been initiated in a calculated, deliberate order with the aim first to stabilise the domestic economy, then to liberalise it gradually, and then to open it up to the international economy. In the Middle East, economic liberalisation has not necessarily followed this order, and in many cases the result has been instability and economic uncompetitiveness. In cases of rapid liberalisation, one response throughout the Middle East has been to encourage tourism as a counter-balance to the financial instability of economic transformation. Thus, even governments which had previously disapproved, opposed, or strongly restricted tourism — such as Iran, Libya, Saudi Arabia, and some of the smaller Arab Gulf states — have recently begun to actively encourage tourism and market themselves as tourist destinations. This trend has been evident during the 1980s and 1990s elsewhere in the world where economic reforms have been undertaken, such as in Cuba, Laos, Vietnam, and for a short time in the early 1990s, even isolationist North Korea.

This thesis argues that the use of tourism as a counter-balance to economic liberalisation rarely works, largely because there is such a strong social and political link between the two. Although tourism may slightly off-set economic instability, by providing employment and hard currency, the effects on tourism of political

⁹ See Ronald I. McKinnon, *The Order of Economic Liberalization: Financial Control in the Transition to a Market Economy*, 2nd Ed (Baltimore: The Johns Hopkins University Press, 1993), especially chapters 1 & 14.

instability is far greater. The slightest instability can have a noticeable influence on the propensity of tourists to visit a particular state, and major incidents, such as a terrorist attack, civil war, or international conflict often damages tourism for many years. The Middle East did not recover from the 1990-91 Gulf war until 1993 or 1994, for example, and it took two to three years for Yemen to recover from the 1994 civil war. Tourism to Israel in recent years, and to neighbouring states such as Lebanon and Jordan, has fluctuated greatly, with a sharp decline after each terrorist attack and after the May 1996 "Grapes of Wrath" foray by Israel into Lebanon. Events which are closely aligned to the (economic or political) liberalisation process, such as the *Gama'a al-Islamiyya* attacks on tourists in Egypt, the civil war in Yemen, or the occasional bread riots in Jordan, have all had a substantial effect on tourism, and have coincidentally but unfortunately often come after a year or more of steady tourism growth. In these cases, the losses from a fall in tourism have usually been greater than the benefits of the tourism expansion prior to the event in question, and it is therefore difficult to argue that tourism has been a positive counter to the negative consequences of economic or political liberalisation.

THE STRUCTURE, SCOPE, AND LIMITS OF THE STUDY

This thesis is structured so as to address the above points, and others, in a comparative and thematic way. After the introduction, Chapter Two presents an overview of the political economy of tourism in the Arab Middle East. The aim is to investigate the various units within the political economy of the Middle East, which effect the operation of the tourism sector, and includes discussion of governments, institutions, social classes and forces, and international actors and influences. This sets the scene not only for a firmer understanding of the structure of tourism in the Middle East, but also for Chapter Three, which discusses the origins, nature, and results to date of economic liberalisation in the states of the Arab Middle East. The

objective of these two chapters is not so much to write a history or explanation of tourism or the liberalisation process in Arab states — many works have already undertaken this type of study (see for example footnote 10) — but rather to lay the foundations for an explanation of the links between liberalisation and tourism.

The thesis then undertakes the three case studies of Egypt, Syria, and Jordan, which form Chapters Four, Five, and Six respectively. These states have been chosen as case studies for two main reasons. The first is their considerable tourism potential, whether fully realised or not, which indicates that if they are not receiving tourists in large numbers, or the fortunes of their tourism sector are fluctuating, then explanations beyond the tourism sector itself may be appropriate. These states also have great differences in the numbers of tourists they receive, which is an interesting phenomenon in and of itself.

Second, the three states have also been chosen because of the differences in the structure of their political and economic systems, and the ways in which they have undertaken economic and political liberalisation. Egypt and Syria both adopted state-led economic development policies in the 1950s (Egypt) and the 1960s (Syria), but have moved away from these policies at different times and in different fashions. While Egypt is often considered the first state to begin economic liberalisation, Syria is viewed as the last. Although this is not necessarily true — both states flirted with economic reforms a decade or so before it became part of their economic policy — the pace, extent, and modes of economic liberalisation have varied greatly between the two.

Jordan never followed Egypt and Syria in the radical economic transformations of the 1950s and 1960s, but during that time the Kingdom nonetheless gradually moved away from the liberal economic policies it had previously advocated to a more state-centred and controlled political economy. Many of its new enterprises were established by the state, and controls on economic activity were gradually increased. Despite its differences with Egypt and Syria,

therefore, economic liberalisation has been an important process in its recent history.

An important influence on Jordanian tourism — and on Egypt as well, although partly for different reasons — has been the Arab-Israeli peace process. Since the Camp David Accords of the late 1970s, Egypt has been both technically and formally at peace with Israel, a condition which Jordan more recently entered, with the signing of a peace agreement in 1994. The Middle East peace process has therefore encouraged the inclusion of Egypt and Jordan as case studies in this thesis: while relations with Israel present a number of opportunities for tourism development and co-operation, the peace process also includes domestic political and economic implications and variables which are less positive.

The thesis concludes with a comparative chapter, which brings the case studies together to highlight the ways in which their experiences have varied or proven similar. The chapter outlines the ways that the relationship between liberalisation and tourism is evident in these states, and makes some broader observations on what aspects of the relationship is applicable to the other states of the Middle East and elsewhere. Having discussed the relationship between liberalisation and tourism, a brief mention is also made of the lessons which this relationship may offer for the future of liberalisation and tourism in the Middle East.

Bearing in mind the aims and structure of this study, and the enormous possibilities in the relatively unexplored areas of both tourism and liberalisation, some limits have had to be placed on this study. The first point is that the thesis is neither a study of liberalisation in isolation nor a study of tourism in isolation — it is a study of the ways in which both of these are inter-related and linked in the political economies of the Arab Middle East. The study includes little discussion of, for example, the environmental or cultural impacts of tourism, and the concentration is on international leisure tourism at the expense of a broader examination of all varieties of travel and tourism. These subjects may appear in the text occasionally, but only in reference to issues more relevant to the study, or in support of the main

arguments of the thesis.

It is also important to stress that the thesis approaches the questions it raises from a comparative analytical approach. It is not, first and foremost, a theoretical work; that is, its primary objective is not to contrast the applicability or adoptability of major theories of political economy to the relationship between tourism and economic liberalisation. That said, the role of theoretical explanations in the social sciences cannot be ignored, and the thesis considers relevant theories of political economy, economic liberalisation, and tourism in contexts where an understanding of such theories is essential or desirable for an analytical explanation of the relationship between tourism and economic liberalisation.

The case studies in the thesis have also been limited and chosen carefully. It is tempting to include other case studies such as Tunisia, Morocco, Oman, Yemen, or Lebanon, or to broaden the study to include a non-Arab state such as Iran, Israel or Turkey. However, to adopt too many case studies, or a different structure which did not stress a case study approach, may have detracted from the observations and arguments of the thesis. Further, while each case study chapter provides a brief background in which to situate the contemporary subject matter, the thesis tries to avoid too much historical content at the expense of an analysis of more contemporary phenomena. Most case studies begin their discussion in the 1950s or 1960s, after a very brief historical overview which may return to the Thomas Cook era of late last century at the earliest. As most of the research for the thesis was undertaken in the period 1995 to 1998, typically relying on secondary sources dating no later than 1997, there is little discussion of events beyond about 1997 or 1998. Given the absence of any dramatic events or policy changes in the case study states since that time, the themes and arguments of the thesis are essentially unaffected by limiting the study to events prior to 1997 or 1998.

THE PLACE OF THE THESIS IN BROADER RESEARCH

There are a number of gaps and hiatuses in the previous scholarship on both tourism and liberalisation in the Middle East. This is despite a recent surge in scholarly interest in liberalisation, and a number of pivotal works in recent years on the politics of economic liberalisation in the Arab world.¹⁰

Many scholarly studies have approached economic liberalisation from a policy or social perspective; that is, their major concerns have often dealt with the political dynamics of policy-making, as applied to liberalisation, or have looked at the social origins of, and impacts on, the liberalisation process and its outcomes. To date, there have been two main shortcomings in the research on economic liberalisation. The first is the lack of sector-specific studies. Apart from a small number of writings, on the agricultural sector in particular,¹¹ little research has been undertaken on the specifics of economic liberalisation as manifested in a particular economic sector of the Middle East. The second area worth greater attention is the myriad linkages between economic liberalisation, political processes, and international influences. While a great deal of research is already available on international influences and political structures as both a source and explanation for liberalisation, far less expertise has been amassed on how economic liberalisation filters through domestic and international influences to affect a particular sector of the economy and its main actors and forces. One of the principle aims of this study is

¹⁰ As a brief few examples, on the politics of economic liberalisation see Niblock & Murphy (eds), *op. cit.*; Iliya Harik & Denis J. Sullivan (eds), *Privatization and Liberalization in the Middle East* (Bloomington: Indiana University Press, 1992); John Waterbury, *Exposed to Innumerable Delusions: Public Enterprise and State Power in Egypt, India, Mexico, and Turkey* (Cambridge: Cambridge University Press, 1993); and Henri J. Barkey (ed), *The Politics of Economic Reform in the Middle East* (New York: St. Martin's Press, 1992). On political liberalisation and democratisation, see Ghassan Salamé (ed), *Democracy Without Democrats? The Renewal of Politics in the Muslim World* (London: I. B. Taurus, 1994); Augustus Richard Norton (ed), *Civil Society in the Middle East, Volumes 1 & 2* (Leiden: E. J. Brill, 1995-1996); John L. Esposito & John O. Voll, *Islam and Democracy* (New York: Oxford University Press, 1996); and Fawzy Mansour, *The Arab World: Nation, State and Democracy* (London: Zed Books, 1992).

¹¹ For example Yahya M. Sadowski, *Political Vegetables? Businessman and Bureaucrat in the Development of Egyptian Agriculture* (Washington: Brookings Institution), 1991.

to address the lack of research in these areas, thereby strengthening current understanding about the liberalisation process and its effects on certain segments of states and societies which implement it. In that sense, by concentrating on the tourism sector and its relations with the broader political economy and the economic liberalisation process, this study also focuses on a sector of Middle Eastern political economy which has received very little attention in the past.

There is considerable scholarship, from fields such as geography, anthropology, and sociology, on the nature and impacts of tourism in the developing world, including the Middle East.¹² Considerable attention has also been paid to the economic analysis of tourism, and to a lesser extent, there has recently been an increased emphasis on the political dynamics of tourism, especially from the perspectives of political development and dependency theory. Two things seem to be lacking in this research. The first is a general survey, and of course therefore a comprehensive explanation, of the political economy dynamics of tourism in the Middle East. The scholarship which already exists on the political economy of tourism in developing states is neither complete in itself nor wholly applicable to the experiences of the Middle East. Second is the fact that, in general political studies of the Middle East and in research on tourism, there has been little investigation of the roles of tourism in domestic and regional politics. For example, although there are some studies of the *Gama'a al-Islamiyya* in Egypt and their attacks against tourists, present research seems not to have tied these dynamics to economic liberalisation, the broader political economy, or to the international and economic effects of terrorism which, in turn, will affect not only the future of tourism, but the outcomes of the liberalisation process more broadly.

Given the shortcomings of recent scholarship as they apply to this thesis, the

¹² See for example, the anthropological and sociological studies in Emanuel de Kadt (ed.), *Tourism: Passport to Development? Perspectives on the Social and Cultural Effects of Tourism in Developing Countries* (Oxford: Oxford University Press, for UNESCO and the International Bank for Reconstruction and Development, 1979), and Fred P. Bosselman, *In the Wake of the Tourist: Managing Special Places in Eight Countries* (Washington: The Conservation Foundation, 1978).

sources used in this study are varied. Secondary sources find their greatest strengths in providing an historical overview to both tourism and liberalisation, and by establishing explanations which can be used as starting points for developing new or further studies in related areas. This thesis has utilised secondary sources mostly for these purposes, although some also contain useful information directly relevant to the economic liberalisation of tourism or to the link between them.

As often as possible, primary sources are used for specific examples cited in the study. Primary sources such as statistics are of limited value, as their utility is marred by manipulation and a lack of full disclosure. All governments attempt to present the situations over which they preside in the most positive light possible, and this is no less true in the states of the Middle East. Tourism statistics, for example, often do not distinguish between various types of international visitors; it is almost impossible, in such instances, to calculate the exact number of leisure tourists who visit the state vis-à-vis other visitors such as business people, researchers, and pilgrims.

Other primary sources have far greater usefulness. Interviews with tourism practitioners, business people, public servants, diplomats, and tourists themselves shed much light on the conclusions contained in this study. In many cases, where statistics are disputable and media freedom less than complete, interviews provided the bulk of information and ideas about tourism policy and the political dynamics of tourism.

This study attempts to go beyond the extent of present scholarship in terms of providing both a sector-specific study on the political economy of tourism, which has not yet been undertaken in detail, and by expanding the research on the political dynamics which revolve around, and accompany, tourism policy and development in the Middle East. In making some brief statements, especially in the final chapter, about the lessons for liberalisation and tourism in a study of the relationship between the two, this thesis diverts temporarily from its main aims so as to apply the study to

other related questions and issues in the contemporary Arab world.

The thesis, therefore, ultimately attends to the following major questions:

- Why have Middle Eastern governments encouraged tourism development and expansion?
- How do government policies set conditions for outcomes in the tourism sector?
- Why has the economic liberalisation of tourism been such a prominent feature of economic reform in the Middle East?
- Which groups, apart from the government, have gained from tourism, and what have their political roles been?
- What international factors have created a climate for tourism expansion and contraction? How is this linked in with liberalisation?
- What impacts does tourism have on the processes and outcomes of economic and political liberalisation?

Many of these questions may be equally applied to Middle East states other than those which form the case studies in this thesis, and to the developing world more generally. Answering these questions as they relate to Egypt, Syria, and Jordan may shed some light on the experiences of other states in the region, and on the political economy of tourism more broadly. Given the growing importance of tourism to the financial situation and economic development process of many Arab states, both the political economy of tourism and the implications of tourism, as well as the outcomes and implications of political and economic liberalisation, have grown increasingly important.

CHAPTER TWO

TOURISM AND THE MIDDLE EAST

Any discussion of the relationship between tourism, as an economic and social concept and structure, and economic liberalisation, as a process, requires an initial overview of the characteristics and nature of each. The aim of this chapter is to provide such an outline of tourism. The chapter lays the foundations for the analysis that follows by outlining the nature and structure of international tourism, and especially by identifying the place and nature of international tourism as regards the Middle East. Although tourism has emerged as a global socio-economic activity, the exact nature of which is dictated by forces and actors largely external to the Middle East, there are nonetheless a number of features of the tourism sector in the Middle East which distinguish the region's tourism sector from that elsewhere in the world.

As a region, the Middle East has not figured prominently in tourism destinations. Only recently have most states of the region begun to look to tourism as a potentially important export sector, and in many cases tourism remains hobbled by factors both within and beyond their control (for example political instability, regional conflict, economic difficulties). The Middle East carries an image, especially in the West, as an unstable, even dangerous area, deterring all but the most adventurous tourists or those with specific agendas such as religious pilgrimage or cultural immersion. As a result of a lack of emphasis in the past by governments on tourism, many states of the region do not have the infrastructure or labour capabilities required to develop and expand tourism. And, finally, the Middle East also faces increasing competition for tourists: while tourist numbers have grown rapidly in the past three decades, and especially in the 1990s, the number of destinations vying for a position in the global tourism business has also risen. New

competition - whether from the South Pacific, Southern Africa, India, Cuba, or elsewhere - has emerged since the end of the Cold War and in response to a rising number of tourists from the developed world.

This chapter looks at several important aspects of international tourism, and of tourism in the Middle East, to address a number of questions, including:

- What is the nature of international tourism? In other words, in what ways does it constitute an economic, political, and social phenomenon? How does the tourism sector in the Middle East vary from elsewhere, and in what ways is it the same?
- What is the structure of the global international tourism industry, and where does the Middle East feature in this structure? How does this structure influence the nature of tourism in the Middle East, and the political dynamics related to tourism?
- What makes the Middle East different from other parts of the world, from a tourism perspective? Are there unique features of the Middle East which could, or do, change the tourism equation in the region? What aspects of tourism policy and tourism politics may indicate a uniqueness in the region?

The main goal of the chapter is not to rehash theories of tourism and economics in the developing world with a Middle East focus, but rather to identify the characteristics of international tourism, and of tourism in the Middle East region, which may have an impact on its relationship with economic liberalisation. This will then be followed by a discussion of economic liberalisation in the next chapter. It is worthy of note, however, that even the political economy of tourism is a subject which, in itself, has not yet been approached in any detail by the literature on economic liberalisation or tourism.

ACTIONS, IMAGES, AND ITINERARIES: THE 'CONSTRUCTION' OF INTERNATIONAL TOURISM

The nature of tourism, the position of a tourism sector vis-à-vis other states, and the way in which tourism is 'sold' to potential travellers play an important role in determining the ability of a state to attract tourists, and the extent to which tourism becomes a blessing or a curse on the host economy and society. The first issue that potential host states face is the extent to which they possess a strength or comparative advantage in tourism, and if indeed they do, where this advantage lies and how best to harness it. The motivations of tourists, and the degree to which a potential tourism-exporting state can match these motivations and supply a demand for tourism, therefore become important.

In general, international tourists travel for one or more of the following reasons:

- A desire for a new, or 'exotic' experience (host-generic);
- The lure of a particular culture or society (host-specific);
- Relaxation or escapism;
- Ego-enhancement and/or peer pressure to travel or display wealth; and
- Pull factors (including the competitive advantage of one destination over another).¹

These factors largely determine the extent to which a tourist is inclined to travel, and equally important, why a particular destination is chosen. States must therefore match their capabilities with tourists' demands, marketing their society, culture, historical attractions, natural environment, climate, or other assets to tourists who are looking for certain experiences. In the case of the mass leisure tourist, the primary

¹ Based on the outline in Gareth Shaw & Allan M. Williams, *Critical Issues in Tourism: A Geographical Perspective* (Oxford: Blackwell Publishers, 1994), chapter 4.

motivations are typically a combination of relaxation (hence the popularity of 'sun, sand, and surf' holidays), shopping (of various types, whether duty free or for traditional arts or handicrafts) and some form of cross-cultural experience. The last of these is usually a constructed experience, rarely authentic, but is nonetheless part of the demand structure of tourism that determines where people visit.

In this context, comparative advantage lies in several aspects of a state's natural assets and its political economy. In terms of natural assets, it must be able to offer the natural infrastructure that provide tourists with activities, whether this be in the form of beaches, forests, mountains, or the less-natural but important assets of interesting cities, archaeological sites, or other cultural, social, or historical attractions. At the same time, for tourism to expand and develop, and for tourists' experiences to be positive so that they re-visit or make favourable recommendations to other travellers, comparative advantage also stems from the political economy structure in which a tourism sector operates. Obviously, tourism will not develop much in a state which does not allow visitors to travel freely, or has few or poor quality hotels, or which prices itself uncompetitively with artificially-high exchange rates or by forcing tourists to use particular, over-priced hotels or tours. It is this context where economic liberalisation plays the most important and visible role, although the natural assets of a state determine what overall potential exists for tourism development.

The question of comparative advantage is blunted quite substantially by the fact that few states are unattractive, in terms of their natural assets, to potential travellers. In other words, the issue is more that of how large the potential is, rather than whether there is any potential at all. Almost every society has a history which is manifest in its culture or its sites. Every society has some characteristics which distinguish it from other parts of the world, and typically also make it unique. Even states with unattractive climates or few natural attractions, which in turn make the potential for mass tourism limited, nonetheless have the ability to develop other

forms of tourism. It is therefore important to ask how a state (and usually its government, in the form of a tourism ministry or marketing body) strategically positions itself as a supplier of tourism that matters, rather than stress the overall potential that the state possesses. This strategic positioning involves both the types of tourists that it seeks to attract, and the political economy environment in which its tourism sector is forced to operate.

However, given the reasons why tourists travel, and the fact that these are as much about satisfying abstract wants as they are about making an objective decision about which state is best suited to accommodate them, tourist demand — like any form of demand — can be created, manipulated, and expanded by a potential supplier. In many cases, this takes the form of establishing or nurturing images and notions of authenticity of a society. All people carry a mental map of what they believe the world is like, and in the case of states or regions where the person has never lived or extensively visited, the mental picture will often be at variance with the reality. Stereotypes, whether from the media, from childhood stories, or from deliberately constructed images, form many of the assumptions that shape a potential tourist's view (or which shape how cultures and peoples view each other more generally). A Briton will often hold views of Egypt that stereotype a desert lifestyle, often nomadic, with an extended family seated around a carpet, in a tent, eating traditional foods such as rice, bread, and exotically-spiced lamb. The role of the women in the family, and the lack of alcohol in the arrangement, will often also feature in this image. Likewise, an Egyptian may hold similarly-stereotyped views of Britain; a smoke-filled pub, a traditional meal of roast meat and vegetables, gentlemen smoking a cigar or sipping port after dinner, with cathedrals or winding, snow-covered cobbled streets in the background. Neither bears much resemblance to the contemporary realities of Egyptian or British life, of course, but such views do shape a decision to visit the other's country. To each, the perceived cultural differences are attractive; the Briton sees the desert as exotic, while the Egyptian

sees a sampling of liquors or snowy scenery as equally exotic.

This develops into a particular 'marketing' style in international tourism, where concepts of "authenticity" and "imagery" are used to entice tourists to a particular place, and take several forms that involve a construction of images of the "Other" for consumption by tourists.² The static geographical position of tourism in part accounts for this, as tourism is not a product that is transported to the buyer, rather, the buyer is transported to the product. Thus an image "entices the outsider to place himself or herself into the symbol-defined place ...".³ Such images help to differentiate a destination from its competitors; if such images are common in other places, or in the tourist's own state, then the likelihood of attracting tourists is diminished. Images of traditional culture, of sites, or of any (un)authentic stereotype or expectation are therefore a key characteristic of tourism marketing, not limited to mass tourism (although this is where it is most commonly found) but also, albeit with a different approach, in marketing to independent travellers, up-market travellers, and others.⁴

The international tourism industry is, therefore, different to other economic industries by virtue of what it does, how it is located, and how it constructs itself to potential buyers. It is a service industry, where the delivery of intangible services is a key characteristic, but it is also an "experience"⁵ sector, where an experience is created that is equally important to the actual service delivered. It is the experience, however, that lasts behind the time frame of the simple delivery of the service. It is also the experience that motivates travellers most effectively, rather than the service (of, say, eating in good restaurants) or the product (say, a memento or artefact).

² See for example Ira Silver, "Marketing Authenticity in Third World Countries", *Annals of Tourism Research*, 20, 1993, pp. 302-318.

³ E. Buck, *Paradise Remade, The Politics of Culture and History in Hawai'i* (Philadelphia: Temple University Press, 1993), (no page reference) quoted in Eric Laws, *Tourism Destination Management: Issues, Analysis and Policies* (London: Routledge, 1995), p. 112.

⁴ See the argument in Silver, *op. cit.*, pp. 312-315, which demonstrates the different approaches, but remarkably similar actualities, of marketing to mass tourists and to those who views themselves as alternative or opposed to mass tourism.

⁵ On this concept see B. Joseph Pine II & James H. Gilmore, "Welcome to the Experience Economy", *Harvard Business Review*, July-August 1998, pp. 97-105.

THE EVOLUTION OF INTERNATIONAL TOURISM AND THE NATURE OF CONTEMPORARY INTERNATIONAL TOURISM

International tourism is an evolving and expanding international activity. Tourism, in the sense of "mass tourism" that characterises twentieth century leisure travel, was largely the creation of the Thomas Cook Company.⁶ Thomas Cook was a middle class English merchant, whose first excursions catered to the English gentry and professional classes who could afford the time for a vacation. Trips of several days by rail in the English countryside were followed by tours to continental Europe, then to the United States.

Cook had always had an interest in the Middle East, especially the Holy sites in Palestine, and his first trip to Palestine and the Nile was advertised in 1868. This was a bold undertaking; it was thought at the time that tours such as those for which Cook had become famous, would be impossible to establish in the Middle East and in Egypt especially. But despite the image of the region as inhospitable, 'unsanitary', and even dangerous, Cook's tours to the region proved popular. This was largely due to Cook's ability to cater to tourists' tastes and comfort; Cook's clients sought the comforts of home, or at least a reasonably comfortable trip. Cook was attuned to the wishes of his tourists, and he ensured that most of the conveniences to which they were used were available. In the planning of his tours, no details were left to chance, and an enormous amount of support equipment accompanied each tour. By 1880, with Cook's son at the helm, the Cook Company had obtained a monopoly over steam shipping on the Nile.

Globally, in the late nineteenth century tourism - especially international tourism - remained out of reach for most Europeans and Americans. Costs were high, and more important was the time required. Even in the early twentieth century, the sea voyage from the United States to Europe or vice versa was at least five days

⁶ The details which follow are taken from John Pudney, *The Thomas Cook Story* (London: Michael Joseph, 1953).

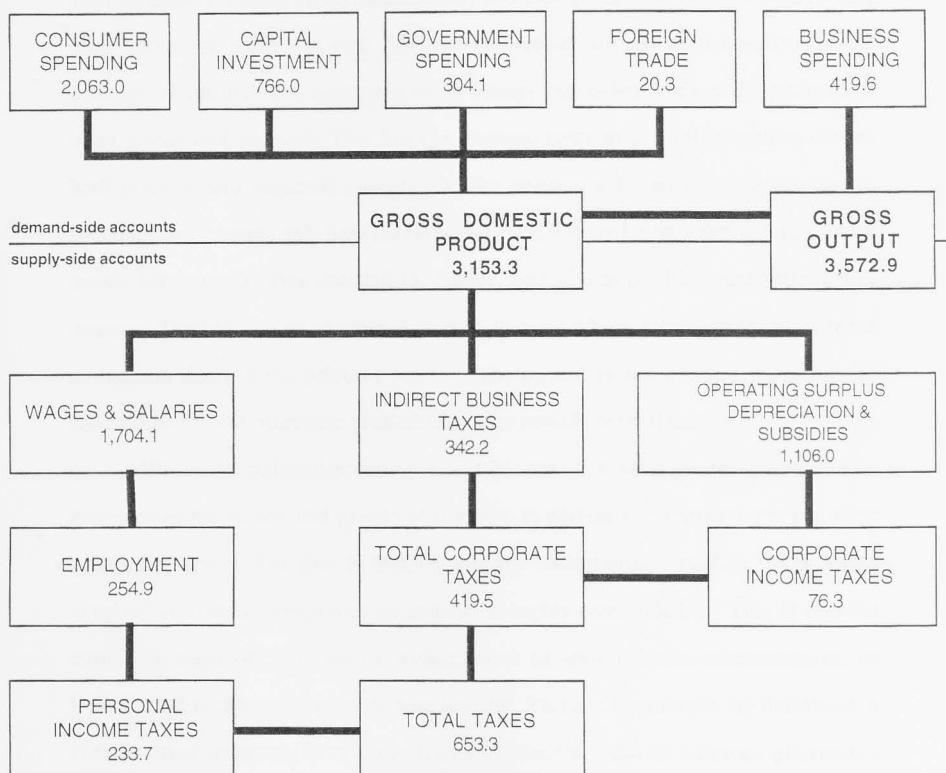
in duration, making even a short visit to New York a two or three week trip, in a period when few people were able to take vacations. Cook's first trip to the Holy Land involved land travel from England to Italy, then a sea voyage to Alexandria, then several weeks in Egypt and Palestine, and then the return trip back to England. It required an enormous amount of time, and by Victorian standards, a considerable amount of adventurousness.

The era of "mass" tourism, however, did not develop until two preconditions had been met: on the demand side, the wealth and especially the time available to tourists had to increase greatly, and on the supply side the modes of travel needed to become cheaper, faster, and more reliable. Technological change had helped Thomas Cook establish his business - his first rail journeys began very soon after the first tracks were laid. His first sea voyages accompanied the introduction of reliable steam ship travel. Likewise, mass travel accessible to most people in industrialised societies did not emerge until the advent of affordable, safe, and reliable air travel, and has expanded in recent decades as air travel has become increasingly cheaper. In response to this, the other facets of tourism have developed to cater for mass tourism: hotels have developed and integrated their services, resorts have become common, and tour companies have evolved to cater for most tourists' interests.

Mass tourism is most commonly categorised as an economic sector. Governments speak of tourism in an economic sense, calculating by how much the national accounts have been enhanced by the visitors who arrive to spend money. Throughout the world, trade development bodies, or national tourism agencies in many instances, fight for a share of the growing international tourism trade, worth an estimated US\$3.6 trillion in 1996.⁷ Figure 2-A provides a breakdown of this value. This value makes tourism the largest service sector in the world, and one of the largest economic sectors overall. At 10.6 percent of gross global product, it provides

⁷ The World Travel and Tourism Council, quoted in *The Economist*, "Travel and Tourism Survey", 10 January 1998, p. 3.

FIGURE 2-A: The Economic Structure of World Tourism
(US\$ billion, 1996)



Source: The World Travel and Tourism Council, in "Dream Factories: A Survey of Travel and Tourism", *The Economist*, 10 January 1998, p. 4

almost one in ten workers throughout the world with employment.

The definitional and conceptual difficulties of constructing an economic characterisation of tourism, stem from its broad structure, its internationalisation, and the intangibility of being essentially a service industry. In an economic sense, it is a hybrid industry, encompassing not just the major economic components — such as transportation, hotels, restaurants, and tour guide services — but affecting other economic sectors as well. The tourism sector, directly or indirectly, creates demand for construction, accommodation fittings, processed foods, and a plethora of other goods and services. This linkage between tourism and other sectors carries both positive and negative impacts. On the positive side, an increase in tourism spending and demand will flow into other sectors; if more tourists demand restaurant meals, for example, then demand for labour, agricultural produce, and fittings will increase. The link is also negative, however, in cases where, for example, an increase in tourism distorts the price of land or labour, and in the process reducing the competitiveness of otherwise profitable sectors outside of tourism.

Within the political economy aspect of tourism, several general points can be made about the nature and profile of tourism, in particular compared against other economic sectors. The first is that, despite the connotations attached to the terms 'tourism' or 'leisure', tourism as an industry is highly commodified.⁸ This is also the case with most other forms of leisure, such as sports, home entertainment, or hobbies, but is especially evident with tourism. Packaged tourism is, by definition, a commodified industry. Even other forms of tourism, such as religious pilgrimage and, to a lesser extent, independent tourism, are becoming increasingly commodified. This trend represents not only a change in the economic structure of tourism, but also a social trend that increasingly places value on conspicuous consumption and symbolic expenditure.⁹ This stems partly from modernisation, in

⁸ O. Newman, "The Coming of a Leisure Society?", *Leisure Studies*, 2, 1983, p. 100, quoted in Shaw & Williams, *op. cit.*, p. 10.

⁹ D. Harvey, "Flexible Accumulation Through Urbanisation", *Antipode*, 19, 1987, pp. 273-276, quoted in Shaw & Williams, *op. cit.*, p. 10.

both the social and economic sense of the word, but increasingly from the post-industrialisation of developed economies, where services and knowledge-based economic activities are expanding in both relative and actual terms, and where manufacturing, the traditional sector of economic development, is diminishing in the process of post-industrialisation. Commodification also derives from the nature of services in general: as a non-essential and intangible product, it is disproportionately consumed by middle- and upper-class people from wealthy economies, or a handful of wealthy people in developing economies, and is therefore seen as a status symbol and as something to be attained. In other words, it serves to mark a social position, which accounts, at least in some part, for the profile of tourism demand, and for the elasticity of demand in mass (that is, comparatively cheap) tourism as opposed to the relative inelasticity of demand at the expensive, luxury end of the international tourism sector.

A second economic feature of tourism is that, due to its structure, it only operates effectively as a mixed sector. Private capital cannot supply all of the investment, services, or support necessary for tourism development and operation and, as a result, some form of state intervention is essential.¹⁰ The private sector is inefficient at providing sustainable tourism policy and unprofitable but essential social overhead capital such as rural communications or transport infrastructure, and market forces do not adequately, if at all, allocate assets that are in the national good such as national parks or heritage areas. On the other hand, government is often inefficient at providing many of the goods and services for tourism. Cases from state-controlled economies, as well as cases of state-owned tourism assets in developed, relatively laissez-faire economies, illustrate this problem. Tourism is structured around providing experiences, and also relies upon high levels of skill in service and sales, which state-owned bodies often appear unable to deliver at the same standard as the private sector. This characteristic illustrates the need for some

¹⁰ John Brohman, "New Directions in Tourism for Third World Development", *Annals of Tourism Research*, 23, 1, pp. 61-63.

balance between public and private sectors in tourism development, and essentially dismisses the arguments that either government, or the private sector, is able solely and completely to manage and operate a tourism industry.

There also appears to be a strong propensity towards the expansion of the private sector in areas of tourism growth. The informal and household sectors, even in highly controlled economies, usually step in to provide services to a tourism sector. In periods of tourism growth, services such as undeclared property rentals, informal restaurants and shops, informal guide services, prostitution, and money-changing typically emerge very quickly. This blurs many of the differences between controlled and liberalised tourism sectors, and also indicates a strong private sector willingness to enter the tourism sector. It also illustrates the need for a public-private sector balance in tourism: the private sector is often willing to provide services that are illegal, or which are counter to public interest, and this in turn requires a strong government role in tourism (and in the economy and society more generally) that is able to enforce laws and regulations and to over-ride individual actions that are counter to the good of society more broadly.

International tourism, however, is more complex than a simple economic sector. It is also a socio-cultural activity, where people of different cultural backgrounds, with different life experiences, and often in artificial or superficial surroundings, meet. It is not always a pleasant meeting - tourists often behave differently when travelling, as a result of being in new surrounds and faced with new, often dazzling, experiences. Further, often as a result of commodification, many of these experiences are artificially created to satisfy tourists' imaginations of what a place, or its people, should look like, rather than what they actually *do* look like. Major tourist attractions such as Disneyworld, in Florida, USA, are an example of this phenomenon, where as many stereotypical images of foreign places and cultures as possible are placed side by side. For the average visitor, it is possible to

visit dozens of 'cultures' in a single morning.¹¹ To a lesser degree, this also happens in the actual countries where such 'cultures' are meant to exist; tourists to the Middle East, for example, may be paraded through a souq which has been especially reconfigured to meet their expectations, or may be offered a dinner cruise on the Nile which includes a 'traditional' belly dancer. The tourists that do leave such artificial surrounds nonetheless face enormous difficulties in entering the local culture or interacting with its people; they are constrained by language and communication difficulties, by the finer points of cultural practices which can mislead or perplex, and by the dominance of economic opportunity over genuine cultural exchange.

Given the profound economic and socio-cultural aspects of international tourism, it is not surprising that tourism is also a very political affair. It involves power relationships between the host and guest, and rarely are the two placed evenly when they meet. This imbalance of power may manifest itself in the economic relationship, for example, where wealthy tourists visit poor societies and, by spending what is a small fortune by the standards of the hosts, distort the local economy or create animosity towards what appear to be extremely wealthy and arrogant outsiders. By virtue of their enormous, if only comparative, wealth, tourists often have great power over the society that they visit; sex tourism in many countries has developed as a serious problem as a result of the power that wealthy tourists can wield over poorer societies. The problem of power imbalance has often been one of the key obstacles faced by states wishing to expand and diversify their tourism sectors; strong opposition will often arise in areas where the experience with tourism has been unpleasant or confrontational. In response to the political dimensions of international tourism - not to mention the social and economic dimensions - states have traditionally placed regulations over tourism within their borders, or have attempted to distance their societies from tourists. In the Middle East, this has taken several forms: from Egypt, Turkey, or Morocco, where most tourists are relatively

¹¹ Donald Horne, *The Intelligent Tourist* (Sydney: Margaret Gee, 1992), pp. 364-366.

free to wander around the country and interact with locals, to Saudi Arabia, where tourism is extremely strictly controlled, and limited almost exclusively to domestic and religious tourism.

How the tourists view host states' regulations on tourism, and therefore the extent to which such policies assist or hinder tourism's economic potential, depends largely on the type of tourism in which the state possesses strength, and the degree to which this contains cultural or social elements that require interaction with the local population. For tourists who plan a trip purely for leisure, it matters little whether cultural interaction (beyond the planned meetings between a tourist and a local in a shop or at a cultural show) is strong or not. In rural or regional centres along the Nile, however, where the interests of tourists include cultural and historical attractions, the relationship between guest and host is likely to be stronger. The ability of states to determine what types of tourism they will allow - and their ability, and the ability of other parts of society, to determine tourism policy and outcomes - depends largely on the political economy structures of the state, and the degree to which power and influence is shared among the various social actors with an interest in tourism. Furthermore, beyond the social structures of individual states, tourism actors are also affected by external actors and events in the broader world economy.

The points above allow for a reasonably accurate, albeit generalised, portrayal of the structure of tourism across time, societies, and various types of markets. Failed or poor attempts at tourism development are usually the result of diverting from one or more of these points. Over-reliance on the public sector or the private sector, a misjudgement by the state of the trend towards commodification, or an inappropriate or absent strategic plan for tourism development account for many of the failures in tourism. Tourism relies upon a strong government framework and support system, a vibrant private sector both in the tourism industry itself and in related industries, a consideration of relevant social, cultural and environmental issues, and an overall strategic plan. As is demonstrated in the chapters that follow,

the economic liberalisation of tourism that occurs outside or independent of these considerations faces difficulty, which in turn has a direct impact on the outcomes and success of liberalisation. The issues influencing tourism policy also impact on the formation of liberalisation policy, as the political dynamics behind the struggles among various groups (between public and private sector, between social classes, and between domestic and international influences) determine the emergence of economic liberalisation, the course that it will take, the role that tourism will play in it, and its success or failure.

ACTORS IN A TOURISM SECTOR: THE STATE, THE PRIVATE SECTOR, AND THE INTERNATIONAL DIMENSION

Given the structure of tourism — both ideally and in reality — the role of social actors and forces, and the impact that they have on tourism, are of great importance. Furthermore, in a consideration of the political dynamics behind the economic liberalisation of tourism, the structure, motivations, and relative power of such groups or institutions is of paramount significance to an understanding of the relationship between economic liberalisation and tourism.

The State

At the very least, the state has traditionally defined tourism policy and the framework in which tourism development occurs. In much of the developing world, including the Middle East, the state has traditionally been the dominant actor in a fledgling tourism industry, with the private sector acting either in a support role or at a micro level, but with states providing tourism capital such as land, buildings, airlines, and the like. In such cases, the role of the private sector was limited to that of providing services as shops or restaurants used by tourists, or in the informal

sector. External private sector parties, including multinational corporations, have traditionally played a management role beyond this: even in the most tightly-controlled economies such as Syria, Iraq, or Nasser's Egypt, major hotels have been state-owned, but managed by foreign private firms such as Hilton, Marriott, or Sheraton.

Economic liberalisation has changed the balance of this structure, by promoting the role of the private sector, both indigenous and foreign, at the expense of state-ownership and control, although the state typically remains strong and important even after a radical alteration of its roles under the liberalisation process. The state has invariably retained its position as a guiding force of tourism, by allocating public spending into areas related to tourism, as well as by providing the policy and strategic framework in which the tourism sector is able to operate.

The nature of state involvement in tourism can be categorised into two main modalities, each with two subcategories of action.¹² The two modalities are active and passive, with passive involvement constituting mandatory and supportive action, and active involvement incorporating managerial and developmental actions.

In every country, the state sets some form of tourism structure and environment, whether intentionally or not. Even the absence of a passive mandatory involvement in tourism — which is unlikely, even amongst governments that oppose tourism — is, by its nature, a form of tourism policy. Most governments, of course, are considerably more active in tourism.

The degree of government involvement in tourism, and the degree to which such involvement is necessary, depends on several factors, as is shown in Table 2.1 below. Not least of all is the stage of economic development at which a particular society is placed.¹³ Economies that are well integrated into the global economy (or

¹² These modalities and actions are outlined and described in C. L. Jenkins & B. M. Henry, "Government Involvement in Tourism in Developing Countries", *Annals of Tourism Research*, 9, 1982, pp. 499-521.

¹³ The ideas that follow are drawn in part from *ibid.*, pp. 504-518.

TABLE 2.1: State Involvement in Tourism: Modalities, Actions and Examples

Modality	Action	Example
Passive	Mandatory	<ul style="list-style-type: none"> • Enactment of legislation with tourism impact • Formation of a taxation and spending structure • Business and investment incentives/environment • International issues (eg: air transport agreements)
	Supportive	<ul style="list-style-type: none"> • Provision of general education and training • Support for industry or labour bodies in tourism
Active	Managerial	<ul style="list-style-type: none"> • A tourism development/marketing body • Specific tourism education and training courses • Establishment of charter flight agreements • Legislative support for tourism
	Developmental	<ul style="list-style-type: none"> • Dominant actor (eg: a centrally-planned economy) • Subsidisation of the tourism sector • Establishment of (tourism-specific) airline • Creation of zones/areas specifically for tourism

Source: C. L. Jenkins & B. M. Henry, "Government Involvement in Tourism in Developing Countries", *Annals of Tourism Research*, 9, 1982, pp. 501-503.

headed in that direction), but which are relatively poor and technologically less developed, are at particular danger of being overpowered by multinational corporations, for example, or the vagaries of tourism demand or trends. This has a very real effect on the incomes of the tourism sector and, by extension, on the level of income enjoyed by individuals, companies, and the government. Foreign exchange leakages are a common problem, where much of the foreign exchange income derived from tourism also leaves the country in the form of input products, profit repatriation, and remittances by foreign labourers.

The level of foreign investment, technology transfer, and skills transfer — again, often linked with the level of economic development — also determine the

level of state involvement in tourism. One such example is the formation of firms or enterprises that rely on large capital investments, or the long term development of highly skilled staff, such as an airline. It is typical, even in the developed world, for national airlines to be partly or wholly owned by governments. This is the result, in part, of the cost of establishing and maintaining such enterprises, although the role of airlines as national symbols also plays a part. Governments may also play a role in encouraging the private sector to establish an enterprise in a particular country, through the use of incentives such as tax relief, subsidies, land grants, or exemptions from labour laws or other regulations. In situations where rapid population growth requires high levels of employment creation, or there is simply a large, comparatively unskilled workforce, governments may also offer incentives to foreign investors to encourage the transfer of skills and knowledge, not to mention the more immediate creation of new employment opportunities.

Governments that see tourism as desirable and economically advantageous will typically play a more active role in tourism promotion as well, through the formation of tourism marketing and promotion bodies, by subsidising a national airline for symbolic reasons, or by offering subsidies or other forms of support to local companies in the tourism sector. Most countries of the Middle East, and the developed world more generally, are actively promoting tourism and competing for a proportion of the global tourism market. In cases such as Egypt, Jordan, Turkey, and Tunisia, this takes the form of aggressive marketing of the country in the countries that supply tourists (mostly Europe in these cases, but also the United States, Japan, and others).

Almost every country has its own airline, created by government and, in many cases, subsidised or supported by the state. Airlines play a unique role not just in the development of the tourism sector, but in the promotion of commerce and other international exchanges. An airline also serves as an international symbol of 'development' and 'modern-ness'; another reason why a state may operate an airline

even where passenger or freight demand does not necessarily justify it.

Even countries that are less aggressive in promoting tourism, such as Syria, Iran, or some of the Arab Gulf states, nonetheless promote their countries once tourists are there by offering information centres, maps, literature, and the like. Other government activities such as the establishment of tourism education and training infrastructure and facilities, also represent a state role for tourism, although such actions are active developmental roles, most common in situations where governments are specifically targeting tourism as a mode of economic development.

The International Tourism Industry

National governments, in deciding on tourism strategy and their approach to the sector more broadly, work within the international economy and the international tourism sector. At the international level, there are several groups of actors that determine tourism behaviour at the state or local levels, and that provide a structure within which tourism operates (and succeeds or fails, as well). International actors include foreign and global capital, most visible in the case of tourism by multinational corporations and international-level firms such as airlines. They also include multilateral bodies such as the World Tourism Organisation, the World Bank, the International Monetary Fund (IMF), and the World Trade Organization.

The structure of the international tourism industry is such that the overwhelming majority of tourism business, in its broadest sense, is controlled by a handful of multinational firms. The majority of firms, however, are small, usually locally-owned and operated firms which compete with multinationals, supplement their activities in a niche of a market, or supply goods or services to them. The reasons for the emergence of a handful of major multinational firms are several.

One such reason relates to the commodification of tourism and travel, which has also been characterised by greater homogeneity. Travellers, including not only

tourists but also business travellers and others, have shown a preference for cautious travel, where they can rely on a standardised level of service and comfort. Major hotel chains, for example, that are able to offer such predictability on an international scale, are more likely to emerge as multinational firms. Corresponding to this are the economies of scale that accompany internationalisation and expansion of the firm. Such hotels, to continue the example, gain a competitive advantage over local firms by virtue of their purchasing power, their ability to tap into international labour markets (especially at senior staffing levels), and their appreciation of international, or generic, preferences as well as local ones. Economies of scale also allow major corporations to develop new products and services in advance of smaller competitors, while at the same time having less risk attached to testing such concepts, as a result of their size and ability to spread risk. As with international airlines, hotels are also forming alliances or are merging with or acquiring each other, making their global presence even more prominent. Recent examples include the unification of Starwood and ITT Sheraton, and of Marriott and Renaissance, in 1997.¹⁴ Multinational firms are, almost without exception, based in the developed economies of North America or Europe. In 1991, of the world's top fifty hotel chains, twenty-five had headquarters located in North America, twenty were based in Europe, and five in Asia.¹⁵ Only two developing states had one of the top fifty chains based within their borders; Cuba and Bulgaria.

Multinational firms occupy several corners of the international tourism and leisure market. The international airline industry is an example, where large airlines have emerged in developed economies. These airlines, furthermore, have developed cooperative networks with each other, sharing routes, lounges, and other facilities to

¹⁴ "Rest Assured", in "Dream Factories", *The Economist, A Survey of Travel and Tourism*, 10 January 1998, p. 8, Table 7.

¹⁵ "Hotels 300 Overview, *Hotels*, July 1991, pp. 40-50, in Shaw & Williams, *op. cit.*, p. 108, Figure 5.3.

save money and spread risk. Major alliances such as Star¹⁶ and One World¹⁷ control approximately 15% each of the global scheduled air passenger kilometres.¹⁸ It is an interesting feature of the international air transportation industry, in fact, that "contrary to the basic goals of capitalism, the decline of protectionist barriers and the creation of a global aviation marketplace will not bring to life an entrepreneurial paradise. Instead of more competition, there will be less."¹⁹ The relationship between international tourism capital, in this case air transportation, and tourism is not always a simple equation, nor an obvious one. Such observations have led to the development of dependency theories and related explanations, although such an approach often ignores the role of the local, or indigenous, private sector in international tourism.²⁰

The Indigenous Private Sector

The mixed economic structure of tourism mentioned earlier calls, in most instances, for a strong private sector role in tourism development and management. The commodification of tourism points, furthermore, to an expansion of the role of the private sector in tourism, although the exact and ideal nature of this role is open to debate. Given the diverse range of inputs that contribute to a tourism industry, it is not surprising that the private sector is often allocated a prominent role in tourism and, in the more specific environment of the Middle East and the economic liberalisation of tourism that is occurring there, such a role is expanding in line with the retreat of the state as economic manager.

¹⁶ The Star alliance includes United, Lufthansa, Singapore Airlines, Thai, Varig, SAS, South African, Ansett, and Air Canada.

¹⁷ The One World alliance includes British Airways, American, Cathay Pacific, Qantas, and Canadian Airlines.

¹⁸ Figures calculated by the author, based on information in "Flying Visits", in "Dream Factories", *op. cit.*, pp. 5-7.

¹⁹ Ellis J. Juan, "Aviation: The Politics and Economics of a Boom", *Foreign Policy*, Winter 1997-98, p. 147.

²⁰ Dependency theory is discussed at greater length in the chapter following this one.

It is worth reiterating at this point the dominance of large international firms in the global tourism industry, as it is within this context that smaller indigenous firms must compete or cooperate. Major airlines, and increasingly airline partnerships between major carriers, dominate international transportation. Large hotel chains, such as Holiday Inn, ITT Sheraton, Le Meridien, and Hilton control large sectors of the accommodation market in most states. Global chains of restaurants and eateries, whether MacDonalds, Kentucky Fried Chicken, or TGI Friday's, dominate not just the restaurant sector catering to tourists, but often, by virtue of their themes and the association of such places with Western culture, the restaurant sector in a host society more generally. Many travellers, especially mass tourists, are essentially conservative; they travel for a new experience or sensation, but this must occur within an environment perceived as safe, non-threatening, and still adequately 'like back home'. It is not surprising, then, that Western tourists in Mexico, Thailand, or Egypt often arrive on a European or US airline, stay in a Western-owned or operated hotel, and flock to the nearest MacDonalds. Further, given the economies of scale in tourism marketing and in operating large chains catering to tourists, and the importance of branding and repeat business for mass tourism, the monopolistic tendencies of globalised firms are enhanced by international expansion. All this, of course, adds to the financial leakage of foreign exchange earnings from tourism and, just as important for the local economy, makes it difficult for local firms at a tourism destination to capture a greater share of the money spent by tourists.

Nonetheless, there is a strong stream of entrepreneurialism, regionalism, and localisation attached to tourism, and despite the dominance of international firms in tourism, the role of local, indigenous firms is usually substantial. The sectoral linkages of tourism is one such example. Even where multinational firms dominate, say, the hotel sector, they will nonetheless rely extensively on local industries for food produce, construction services, artworks and decor, and typically some

business-to-business services (whether cleaning, accounting, repair work, or numerous other services) that are most effectively bought locally rather than imported. Such a relationship may have a negative impact, such as where the purchasing power of the multinational (or, by extension, the tourist) influences prices and raises the costs paid by local buyers of the same goods and services.

Tourism also fosters the growth and protection of local cottage or handicraft industries. As a labour-intensive, traditional sector, where developing states often have a comparative advantage, this is no small matter in tourism development. One study of Syria highlighted the role of tourism in supporting traditional handicraft industries as a key competitive advantage possessed by developing economies with which they can challenge the dominance of multinational firms in the economy.²¹

Along the production chain of tourism, there is also scope for firms to form various types of networks.²² This may involve the formation of franchises by multinationals, using local investors and managers to provide a globalised product or service. Major food retail stores, such as MacDonald's, Pizza Hut, and Kentucky Fried Chicken utilise this approach in many countries. Networks may also form when knowledge or information is shared along the production line, so that a firm at one end will cooperate with firms elsewhere along the line, against which it is not directly competing and through which it can gain increased sales or market share via a strategic alliance, partnership, or agreement. Networks may also develop in the form of cooperative marketing, or in jointly developing new products or services across firms, or in expanding non-core products that may be outsourced to other firms or to subsidiaries. In this sense, therefore, the exact role of multinational and local firms are various, and their positions vis-a-vis each other can be competitive, cooperative, or a combination of both.

²¹ Miyoko Kuroda, "Economic Liberalization and the *Suq* in Syria", in Tim Niblock & Emma Murphy (eds.), *Economic and Political Liberalization in the Middle East* (London: British Academic Press, 1993), pp. 203-213.

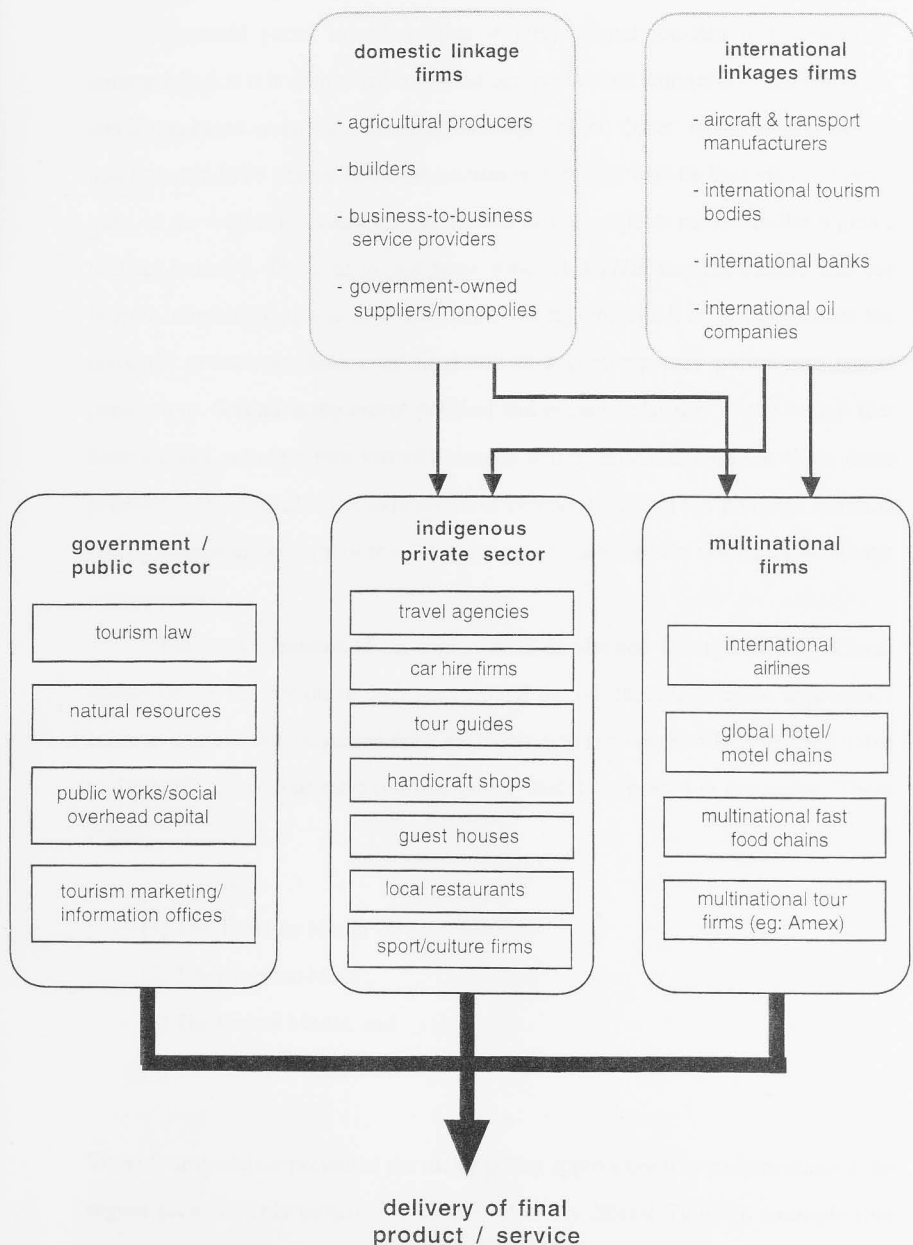
²² The idea of networks is based in part on Pascal Tremblay, "The Economic Organization of Tourism", *Annals of Tourism Research*, 25, 4, 1998, pp. 837-859, although his use of the concept is made towards a different argument.

Furthermore, none of this is to say that local firms cannot enter competition against multinational ones and perform well. Many developing economies have national airlines, or regional ones, that perform effectively, operate at a profit, and have extensive networks. Such carriers are not isolated from the global airline industry either; airlines from the developing world, such as Thai, Varig, Emirates, Malaysian, Aerolineas Argentinas, and Egyptair, are important partners in airline alliances. Further, the domestic market remains a predominantly closed market to international carriers, even in the developed world, and with such protection, many carriers in developing economies dominate domestic and regional air services. An even starker example is that of the Cham Palace group of hotels in Syria, which comprise fourteen four- and five-star hotels throughout the country, catering to the full range of guests; tourists, business travellers, pilgrims, and conference and incentive travellers. The hotels are Syrian-owned and managed, and compete openly in key Syrian cities with major multinationals such as ITT Sheraton and Le Meridien.²³

The composite structure of international tourism, and the variations in inter-firm and public-private relations, makes it difficult to characterise tourism theoretically through the dependency lens that many researchers use. Despite the fact that international tourism is dominated by large multinational firms, these are remarkably reliant on both local companies and smaller international firms, to sustain their activities. Such a structure, with borders that are non-existent or, at best, difficult to define and locate, highlights the complexities of tourism and the inherent difficulties in measuring the role of the private sector, and its components, in it. Chart 2 illustrates this complexity, and places the roles of government, local firms, and multinational firms into a relationship structure.

²³ Author's interview with Ms. Marie Rose Ghanem, Sales Representative, Cham Palaces and Hotels, Damascus, 5 June 1996.

FIGURE 2-B: Linkages and the Inter-Relationship of Actors in Tourism



TOURISM IN THE MIDDLE EAST: PAST APPROACHES AND POLICIES

It would seem, therefore, that if international tourism is increasingly commodified, if it is dominated by global companies that homogenise their product, and if it is based on artificial constructed images of the 'Other' and of what is exotic, that little would be unique about the tourism sector in the Middle East vis-a-vis other parts of the world. In fact, there are several distinct aspects related to the region's tourism industry. The first is that some traits of Middle Eastern culture and the Islamic religion create a unique situation in the region, which in turn influences the response to tourism, both over time and in a contemporary policy and social perspective. Second is the recent political and economic history of the region that have created certain views towards tourism and to relations with the West more generally. This includes the experience of colonisation, and the political situation arising from it in the form of revolutionary government and the search for economic modernisation.

These two features of the region were manifested throughout the political economies of the region in the post-colonial period, including in the approaches taken to tourism. In the period from decolonisation (and especially from the 1950s) to the 1980s or so, four main tourism 'policy models' appeared in the region. These were:

- (1) The Tunisian Model,
- (2) The Egyptian Model,
- (3) The Omani Model, and
- (4) The Saudi Arabian Model.

These four models represented the major policy approaches that governments of the region took towards tourism, from the relatively liberal Tunisian example that

allowed for large scale, pleasure seeking mass tourism, to the Saudi Arabian example, where international tourism was virtually non-existent and was effectively banned. Only in the 1980s, and more so in the 1990s, have tourism policies in the region been substantially liberalised, and have converged towards a more liberal approach.

Islam, Middle Eastern Culture, and Tourism

Islamic laws and traditions, coupled with Arab cultural traditions, have played an important role in determining how travellers were and are viewed in the Middle East. Most interpretations of the Qu'ran and Islamic traditions stress the compatibility of Islam and travel, and indeed the virtue that Islam bestows on travellers.²⁴ The need for travel to perform the Hajj pilgrimage is the most obvious reason that travel is encouraged. Equally important is the view that travel broadens peoples' appreciation of God's creation, and allows them interaction with other Muslims.²⁵ Such travel therefore serves a purpose in religious terms, in contrast with "mass tourism which is motivated mainly by pleasure and hedonistic pursuits".²⁶ The degree to which a Middle Eastern government identifies itself as 'Islamic' therefore plays a strong role in the degree of liberalism that it applies to tourism. While all governments in the region present themselves as Islamic to some extent, the role of religious law and practices in the governments of, say, Saudi Arabia, Egypt, and Turkey, are markedly and undeniably different.

Islamic tenets covering travel have had an influence on the traditional profile of tourism in the Middle East, which most notably has been characterised by pilgrimage, not just to Mecca for the Hajj or Umra, but also to other holy sites in the Holy Land, Jordan, Iraq, Syria, and elsewhere. Christian and Jewish pilgrimages

²⁴ Kadir H. Din, "Islam and Tourism: Patterns, Issues, and Options", *Annals of Tourism Research*, 16, 1989, pp. 542-563.

²⁵ *Ibid.*, p. 551-552.

²⁶ *Ibid.*, p. 552.

have been, and are, also important — the Middle East, as the region where both of these religions, along with Islam, originated, contains a number of sacred and historical sites. In the cases of Israel and Saudi Arabia, in particular, a large proportion of foreign visitors are pilgrims rather than tourists.

Islam also places responsibility on people to give shelter and assistance to travellers. This links in with a feature of Arab and other Middle Eastern cultures, namely that of hospitality to visitors. In Islam hospitality is designed as a way to promote companionship and camaraderie among Muslims and to increase the ability and affordability of travel for the poor, elderly, and disabled.²⁷ In an anthropological sense, hospitality is rooted in kinship structures and relations between actors of different social standing, and between an individual and the local community. In the specific case of Middle Eastern culture, hospitality also stems from geography, and especially from the dangers and discomforts of traditional desert life, where a refusal of shelter and assistance could literally lead to the death of the traveller. There is a sense of reciprocity about such hospitality, and therefore it has limited applicability to the case of contemporary mass tourism. Nonetheless, the religious and cultural requirement of hospitality does extend into contemporary life, and therefore into relations between host and guest in the Middle East, although it is threatened in cases where either of the two sides are disrespectful or ignorant of each other.

For contemporary Middle East tourism, Islam and the region's Arab and Persian cultures impact in several ways. Not least of all is the standards of behaviour that are required of tourists, especially in comparison with other regions of the world. The scourges that tourism bring — such as ostentatious displays of wealth, a prostitution industry, or negative influences on local culture and society — are not popular anywhere, but in Islamic societies (not just those of the Middle East), this is a particularly major concern. The emphasis in many states is therefore on controlled tourism, or on tourism that is focused on historical or cultural education rather than

²⁷ *Ibid.*, pp. 552-553.

the pursuit of relaxation and pleasure. To varying degrees, the Islamic states of the Middle East have sought to address the social ills of tourism by regulation of the sector, although such regulation has dissipated or been abandoned as the need for the financial and economic results of tourism have become paramount over concerns for the social results.

The Evolution of Tourism Policy in the Post-Colonial Middle East

If an all-embracing definition of tourism is adopted — where tourism includes not only the mass leisure travellers of the late twentieth century, but also people travelling for trade, pilgrimage, or as explorers — then the Middle East is probably the oldest tourism destination in the world. As one of the earliest inhabited regions on earth, people have migrated to and from it, visited it to buy or sell their wares, and journeyed to it in search of religious fulfilment and in pilgrimage to its holy and historical sites. Such a tradition, however, has not translated into a successful mass tourism market in recent decades. During the second half of the twentieth century, the region has been at the periphery of a large and expanding global mass tourism industry.²⁸

During most of the twentieth century in both the Middle East and elsewhere, the state and the governing elites have been the dominant actors in the tourism sector. To the extent that Middle East states encouraged tourism at all prior to a couple of decades ago, tourism was largely a state affair. Tourism policy was determined by political elites, usually in an economic ministry or within the upper and middle echelons of the bureaucracy. The assets of tourism, from national airlines to bus companies down to, in many cases, mid-price hotels, were usually state-owned, and operated as cheap and often subsidised transportation and accommodation networks targeting local citizens as much as foreign tourists. In

²⁸ Robert Vitalis, "The Middle East on the Edge of the Pleasure Periphery", *Middle East Report*, 196, 25, 5, September-October 1995, pp. 2-7.

much of the Middle East, the organisation of tourism was also a state-run matter; state-owned tour companies often had a monopoly over the tour market, or simply enjoyed dominance by virtue of their ability to gain cheaper prices for tourists without being constrained by the profit motive.

In many cases, especially between the end of World War Two and the 1980s, tourism was a highly politicised economic sector. This in part accounts for the lack of focus on tourism in many states during this period. It was politicised in the sense that, in light of the colonial histories of most of the region, few states and few of their citizens wanted foreign visitors travelling around the countryside without limitations on, or observation of, their activities. Added to this, especially in the conservative Gulf states, among others, unbridled tourism was seen as a cultural and especially as a religious threat. Not without reason, tourism was seen as a hedonistic pursuit, concomitant with which typically were vices such as alcohol, gambling, prostitution, and economic exploitation. Examples from outside of the Middle East in this period indicate that such fears were often well-founded; the major destinations of the time, where few if any rules or controls were placed on tourists, often saw social vices and problems accompany the tourists. Jamaica, pre-revolutionary Cuba, and some of the cruise liner stop-over points in Asia come to mind.

Tourism in the Middle East in the period from the 1950s to the 1970s took several forms. Cities which served as stop-over destinations for cruise ships between the Far East and Europe, for example, hosted a large number of short-term tourists, most staying only one day. Aden in Yemen, Port Said on the Suez Canal, and Tangier in Morocco were major cruise liner stop-overs, but declined in importance as air travel became increasingly cheaper and accessible in the 1970s. On a smaller scale, many states of the region allowed, or even encouraged, packaged tourism during this period. The number of visitors was nonetheless small, as the time and effort involved in touring the Middle East remained a hurdle to many potential

visitors. And finally, religious tourism, especially to Israel but also to surrounding states, accounted for some visitors. On the whole, however, the perception of the region as unstable and potentially dangerous, the lack of interest by many states in encouraging tourism, and the comparatively limited number of tourists who could afford the time and money for a visit to the region all hindered the growth of tourism to the Middle East in mid-century and later.

The policy approaches to tourism taken in the period between independence and economic liberalisation often varied greatly from state to state. At one end of the spectrum were the relatively liberal examples of Egypt, Tunisia, Morocco, and Turkey while at the other end were the severe restrictions placed on tourism by the Gulf states such as Saudi Arabia. The radical Arab states such as Iraq and Libya took yet a different approach, often viewing tourism from a lukewarm or suspicious angle. Tourism policies in the Middle East, during the period from the late 1940s to the 1970s and later, fell broadly into the four models mentioned earlier (Tunisian, Egyptian, Omani, and Saudi Arabian).

The Tunisian Model. Tunisia focused on "sun, sand and surf" tourism.²⁹ Like Egypt since the 1970s (and even before), Tunisia followed a relatively open tourism strategy, although it chose to link tourists more closely to its particular strength and advantage. Beginning in 1966, Tunisia sought to develop tourism by focusing on the mass tourist market from Europe, providing European travellers with a relaxing resort vacation, plus a hint of "exotic" Middle Eastern culture. Independent tourists and others outside of the mass travel industry were still permitted, if not encouraged, to visit Tunisia, but most chose instead to visit Egypt, Israel, Morocco, or Turkey, and the government's focus centred on the mass market.

The Tunisian Model was, and still is, somewhat unique in the Middle East, although elements of the mass tourism emphasis are found throughout the region. The case of Lebanon, prior to the outbreak of the civil war in 1975, provides one of

²⁹ Robert A. Poirier, "Tourism and Development in Tunisia", *Annals of Tourism Research*, 22, 1, 1995, pp. 157-171.

the few comparisons with Tunisia, although Lebanon sought a wide range of tourists, rather than the overwhelming focus being on "sun, sand and surf" tourism.

The Egyptian Model. Egypt's current policy is characterised by open tourism throughout much of the country and across a variety of tourism types. In the past its approach has been less liberal, but not especially hostile to tourism even under the leadership of Nasser. Cruise ships travelled freely through the Suez Canal during most of the 1940s, 1950s, and 1960s, with travellers often alighting to visit Cairo or other places in Egypt for a day or two. Hotels such as the Nile Hilton, established in 1958 under Nasser's presidency, were managed by foreign companies. This demonstrates that despite the tag of Arab Socialism applied to the Nasser regime, certain types of foreign capital and management were permitted, if not welcomed.³⁰ Under Nasser, tourism policy was, in a sense, neutral. Tourism was neither embraced nor opposed, but rather was seen as peripheral to the economy and the regime's economic development agenda.

During this period, states such as Morocco and Turkey followed a similar tourism policy to that of Egypt, as did Tunisia in a slightly different, more focused, form. It is also important to stress that tourism policy has changed dramatically in the past two decades. After the announcement by then-president Anwar Sadat in 1974 of a policy of *al-infatih al-iqtisadi* ("economic opening"), tourism gained greater prominence in the government's economic strategy. By the 1990s, tourism was characterised by a virtual "free-for-all", accompanied by a boom in hotel and resort construction and the absence of restrictions or controls on tourist entry to, or activities in, Egypt.

The Oman Model. Oman's tourism policy, until gradually liberalised in the 1990s, was characterised by a highly restricted and regulated tourism industry, concentrating on wealthy visitors who, to protect the local society and culture, were under the control of a guided tour. In the past Oman only admitted tourists that had

³⁰ Matthew Gray, "Economic Reform, Privatization and Tourism in Egypt", *Middle Eastern Studies*, 34, 2, April 1998, p. 91.

pre-paid for expensive, guided tours in the country, and whose motivation was primarily cultural and historical. The number of visas issued, the length of their validity, and the sites that could be visited were all strictly controlled.³¹ Only in the past few years has Oman liberalised its visa conditions, and allowed tourists greater freedom in visiting the Sultanate, as part of its strategy of economic diversification, and in response to the need for greater foreign currency income and employment creation. The Oman Model was not alone in the region, or elsewhere, and reflected a concern for the social ills that often accompany mass tourism. The United Arab Emirates (UAE) and North Yemen followed a similar strategy prior to the 1990s, as did Iran in the 1980s and into the 1990s.

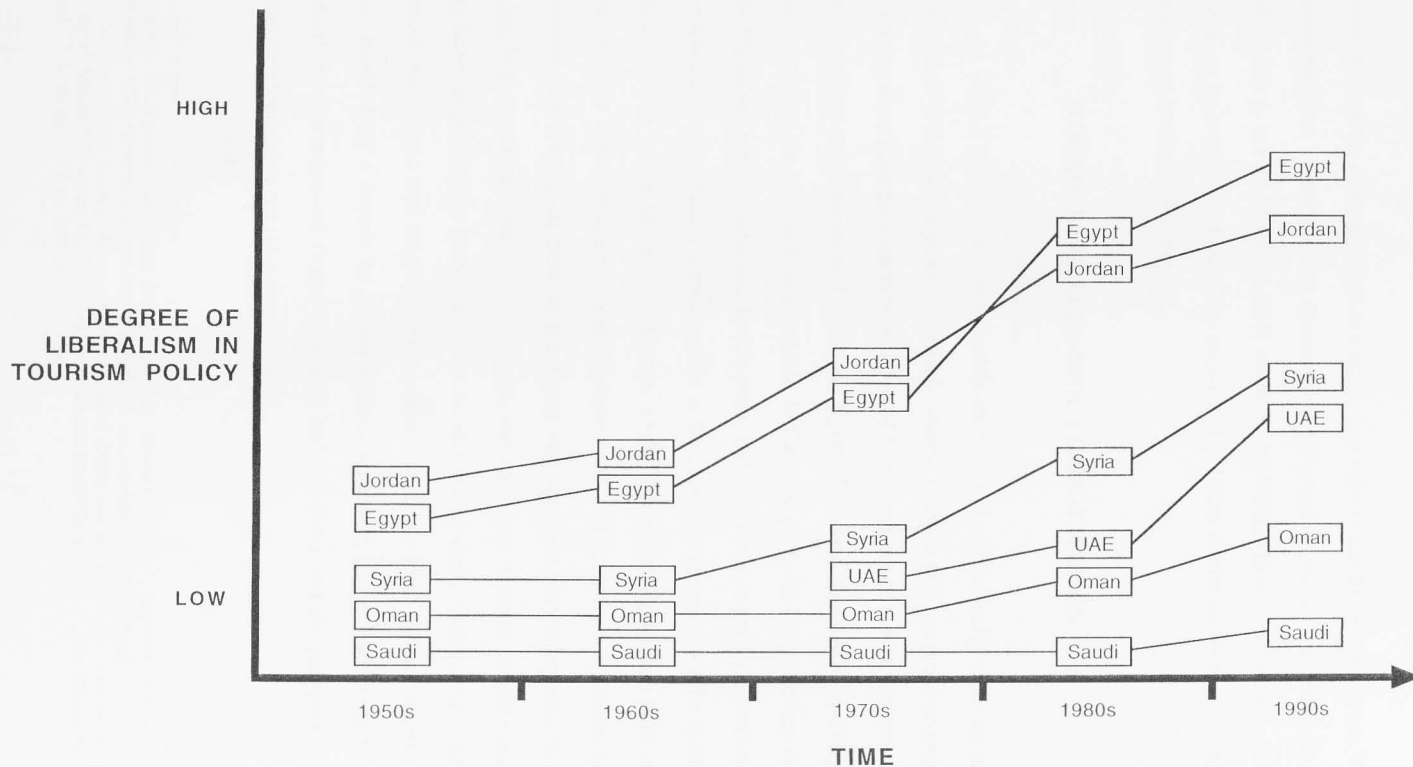
The Saudi Arabian Model. The Saudi Arabian Model is an extreme example. The Saudi government has virtually banned foreign leisure tourism, allowing visitors only for the purposes of religious pilgrimage, domestic tourism by Saudi nationals, and some travel by foreign expatriates living in the Kingdom. This is a policy that has remained almost unchanged to the present day.

The Kingdom of Saudi Arabia, as custodian of the holy sites of Mecca and Medina, has long viewed itself as unique in the region. Since the emergence of the Islamic religion, Mecca and Medina have been dominant pilgrimage destinations of the Middle East (along with Jerusalem). This position created a tourism infrastructure of sorts, to cater for visitors at, and on their journey to and from, the holy cities. Besides some attempts, largely unsuccessful, to encourage Saudis to travel domestically, other forms of travel to the Kingdom have been restricted to business visitors and travel by foreign expatriates, who unless Muslim are forbidden from visiting Mecca, Medina, or other holy sites. It is telling that Saudi Arabia does not issue tourism visas.

Only in the late 1990s has any form of Western tourism been allowed, under the strictest of conditions, and while significant when measured against past tourism

³¹ Author's interview, Bahrain, 30 June 1996.

FIGURE 2-C: The Liberalising Trend of Tourism Policy in the Middle East, 1950s-1990s



policies, this marks, at most, a shift towards a very rigid Oman Model of tourism.³² Tourism has been a response to a deteriorating economic position;³³ in this sense, Saudi Arabia is not dissimilar to other states of the Middle East in its reasons for opening up to tourism, although the social and political concerns about tourism expansion are markedly different.

TOURISM AND ECONOMIC LIBERALISATION

As Chart 3 indicates, the four models above have been gradually removed or diluted, albeit to varying degrees in particular states. Tourism policies are changing and moving away from the controlled policies of Saudi Arabia and Oman, towards a more liberalised approach as in Tunisia and Egypt. This trend is evident in every single country of the Middle East at present. In the most controlled tourism sectors of the region — Saudi Arabia and Iran in particular — there is a gradual, hesitant move towards tourism taking a great profile in the economic strategies of the state. In states such as Libya, Oman, and Algeria, where tourism has long been held in suspicion, there is also an attempt to gain greater financial benefit from it. Oman, as mentioned, is moving away from its previously very stringent tourism regulations, and has begun to issue visas at its embassies and encourage tourism. Algeria and Libya have sought greater tourist numbers for different reasons, seeking first and foremost the income and employment creation that it provides. Libya's tourism sector, hobbled for a decade by United Nations sanctions, has in 1999 seen the resumption of international flights to Tripoli and Benghazi and the prospect for tourism development in the following years.

³² Economist Intelligence Unit, "Saudi Arabia: First Steps Towards Tourism", *Business Middle East*, 29 September 1998, retrieved electronically at <http://www.eiu.com/latest/36105b80.html>

³³ On the economic and fiscal problems confronting Saudi Arabia, see Rayed Krimly, "The Political Economy of Adjusted Priorities: Declining Oil Revenues and Saudi Fiscal Policies", *The Middle East Journal*, 53, 2, Spring 1999, pp. 254-267.

TABLE 2.2: International Tourist Arrivals in the Middle East

	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998
Middle East										
Arrivals (millions)	8.6	9.0	8.4	10.9	11.4	12.8	13.5	14.1	14.8	15.6
% Annual Change	1.4	4.6	-6.6	30.5	4.4	12.3	5.6	4.3	5.3	5.3
World										
Arrivals (millions)	426.5	458.2	464.0	503.4	519.0	550.5	565.5	596.5	610.8	625.2
% Annual Change	8.0	7.4	1.2	8.5	3.1	6.1	2.7	5.5	2.4	2.4

Source: World Tourism Organization, *Tourism Highlights 1999* (Madrid: World Tourism Organization, 1999), p. 11, retrieved electronically at <http://www.world-tourism.org/>. There may be slight inaccuracies in percentage figures, as these are calculated on exact arrivals figures, not the rounded ones that appear here.

TABLE 2.3: International Tourism Receipts in the Middle East

	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998
Middle East										
Receipts (US\$ billion)	4.5	4.4	3.8	5.1	5.7	6.4	7.5	8.2	9.1	9.7
% Annual Change	3.9	-2.2	-13.2	32.7	12.5	12.1	17.6	9.6	10.8	6.4
World										
Receipts (US\$ billion)	221.3	268.9	277.6	315.1	324.1	354.0	405.1	435.6	436.0	444.7
% Annual Change	8.3	21.5	3.2	13.5	2.9	9.2	14.4	7.5	0.1	2.0

Source: World Tourism Organization, *Tourism Highlights 1999* (Madrid: World Tourism Organization, 1999), p. 12, retrieved electronically at <http://www.world-tourism.org/>. There may be slight inaccuracies in percentage figures, as these are calculated on exact receipts figures, not the rounded ones that appear here.

The timing of the liberalisation of tourism policy has corresponded roughly with economic liberalisation in the region. At key junctures and time periods on Chart 3, a dramatic or substantial liberalisation of tourism policy has coincided either with a major stage of the economic liberalisation process, or with a major economic or political event. Examples of the former include Egypt's sharp change in trend between the 1970s and 1980s, at a time when economic reform (Sadat's *infitah*, in particular) occupied a key position in economic development thinking. A similar example is found with Syria's similar trend change at around the same time, when the first *infitah* was at its peak. Oman's gradual liberalisation in the 1990s coincided with an economic recession in the first half of the decade, a not dissimilar situation to the liberalisation of tourism policy in Saudi Arabia, Iran and the UAE.

In Jordan, the change has been less dramatic and related as much to political imperatives as to economic ones; it is evident in the late 1960s and early 1970s, for example, when it lost Jerusalem and the West Bank, and needed to actively encourage more tourism rather than rely on the natural flow of visitors to Holy sites such as Jerusalem. The explanation is similar for Jordan's jump in the 1990s, when the 1990-91 Gulf War and the loss of trade with Iraq forced the Kingdom to look for new sources of income and employment. Adding to the heightened role of tourism in the 1990s was an ambitious economic reform program implemented after the 1989 agreement with the IMF, in which tourism income has played a role in easing some of the pain of economic restructuring.

The chapters that follow spell out the political and other dynamics that have been responsible for the relationship between tourism and economic liberalisation in these countries, and in Egypt, Jordan, and Syria in particular. There are several important aspects in the relationship.

One relates to tourism and economic liberalisation serving similar economic, and by extension political, purposes. Tourism is usually aided by economic liberalisation, especially if the goal is greater efficiency and higher tourism income,

which in turn promotes the use of the two simultaneously by governments keen to reform their economies. This, along with a wealth of attractions, and experience and a perceived comparative advantage in tourism, has been a primary — though certainly not exclusive — explanation for the link between tourism and economic liberalisation in Egypt since the 1970s. Political imperatives pertaining to the economic reform process have played a role in the evolution of tourism in Egypt, with tourism creating new opportunities for an increasingly politicised business class with which the government has formed an *infitalah* pact, trading economic concessions for political legitimacy.

In Syria, this trade-off has been even more pronounced, with the creation of new business elites by the government. These elites serve several purposes; they broaden the regime's base of support, they represent the regime to their ethnic constituencies (mostly the Sunni and Shi'a merchant class), and they provide economic and managerial support to government enterprises through joint sector (that is, part public and part private) firms. But elite cohesion and regime maintenance are only part of the Syrian equation. The concomitance of tourism and economic reform in Syria is also explained by the need to respond to economic crisis, a feature similar to that in Egypt and Jordan. Both economic liberalisation and tourism have gained priority in the government's economic agenda in times of economic crisis, when the need for hard currency, new labour intensive sectors, and rapid transformation of the economy have been essential.

Jordan provides yet another example of the relationship between tourism and economic liberalisation, where tourism and economic liberalisation have been an economic policy response to fiscal crisis, and as a result have constituted a strategy of regime maintenance and elite consolidation. But Jordan also illustrates other links. Jordan's role in the Arab-Israeli peace process and the positive and negative implications for the development of the Kingdom's economy have been important, as has Jordan's lack of natural assets and its need to rely on labour-intensive, rentier,

and service activities.

But before highlighting the elements of this relationship on a state-by-state basis in more detail, a discussion of economic liberalisation and the political economy of the Middle East is necessary. The past modes of economic development, and an examination of the nature and course of the economic liberalisation process, form the chapter that follows.

CHAPTER THREE

ECONOMIC LIBERALISATION AND THE MIDDLE EAST

The Middle East, and the developing world more generally, has grappled with the problem of economic development by adopting a succession of economic policies during the twentieth century. To date, each policy has proven unequal to the task of achieving economic and social development for the region, and has fallen into disfavour as a new orthodoxy has been enthusiastically embraced in its place. The century opened with much of the Middle East focused on economic liberalism, or more precisely on (neo-)classical economics, as the mode of development. A loose coalition of wealthy, landed elites and a mostly-urbanised bourgeoisie, operating under the loose control of a colonial power and its resident representatives, proved incapable of conceptualising and implementing plans for economic development and the distribution of resources, thus ending the 'Liberal Age' in the region. In place of the Liberal Age came a more state-centred development approach, led by an emerging middle class, in many cases drawn from the officer ranks of the military or from a nascent post-colonial bureaucracy. This phase promised economic development through the apparatus of the state, hence an emphasis on the policies of state-led development (SLD) and import substitution industrialisation (ISI). The number of names tagged to this period — *étatisme*, socialism, Arab Socialism, Islamic Socialism, dirigisme, illiberalism — testifies to the difficulties in categorising it, and also hints at the divergence between many of the states of the Middle East during this time. Following and flowing from this period of *étatisme* (the least ideologically-loaded term from the options available), parts of the region moved into a state capitalist mode of development. This was characterised by a loose coalition of bureaucratic elites, often seeking to move their financial power from the public to private sector, plus the vestiges of the *ancien*

regime and later, the new-fashioned business elites that emerged as the state capitalist phase began to relax its regulation of the economy and to permit the private sector greater freedom. Again unequal to the task of economic and social development, the *étatisme* and state capitalism periods have begun to step aside — or be pushed aside — by the current phase of economic liberalisation and market-led economic development.

Economic liberalisation has been characterised by the movement of economic emphasis, power, and ownership away from the state to the private sector, and a greater focus on the forces of the market to solve problems of financial and economic efficiency, allocation of resources, and the mechanics of production. It is a major transformation, embracing extensive changes such as

the privatization of formerly state-owned industry; the encouragement of private investment (whether domestic or foreign); the opening of stock markets, in which shares of public companies can be traded; the relaxation of state control over credit (whether as regards the level of interest rates or the purposes for which credit is made available); the cutting of state expenditure, with the consequent reduction of the overall burden which the state infrastructure imposes on the economy; the loosening of state controls over foreign and/or domestic trade; the re-ordering of labour laws such that wages and conditions reflect the value placed on labour by the market, rather than following governmental guidelines; and the restructuring of the public sector so as to make public corporations able to respond directly to market conditions, as opposed to being continually subject to decisions taken from above in ministries.¹

As this definition makes clear, privatisation forms part of the economic liberalisation process. It is sometimes its most visible manifestation, and is one of the more controversial elements of market-oriented reform in the Middle East and in other parts of the world. Privatisation deserves a definition of its own, partly to distinguish it from other forms of economic liberalisation, but also to reinforce its inter-relationship with the broader components of economic liberalisation.

¹ Emma Murphy & Tim Niblock, "Introduction", in Tim Niblock & Emma Murphy (eds), *Economic and Political Liberalization in the Middle East* (London: British Academic Press, 1993), p. 1.

Privatisation is most commonly applied to the transfer of ownership of state-owned assets to the private sector — the term, in fact, was introduced by the Thatcher government in the United Kingdom in the early 1980s, to refer to the sale of state-owned enterprises directly to the private sector.² Privatisation may encompass a broader range of measures, often less dramatic than those undertaken under Thatcher in the UK, that increase the role of the private sector in the management or ownership of the means of production. Thus Nazih Ayubi has expanded the definition of the term to include "three main approaches and seven main modalities for privatisation", covering anything from a transfer of management power to the private sector to the complete transfer of all ownership and management of the economy from the public to the private sector.³ Under this definition, therefore, the transfer of responsibility for management of a hotel to the private sector would be an example of privatisation, as would be the outright sale of the hotel. In the Middle East in recent decades, the former has typically, although not without exception, constituted a precursor to the latter.

None of this is to say, of course, that all of these changes have occurred or are underway in the Middle East at present under the rubric of economic liberalisation. Nor is it to say that all of these changes should be implemented simultaneously, or in a certain order, or in some cases even at all. For the purposes of the discussion that follows, however, economic liberalisation will be taken in the very broad context of the above: that is, as a policy, or a collection of policies, that strengthen the role of the market vis-à-vis the state in economic activity.

This chapter provides an overview of the nature, structure, and basic principles of economic liberalisation. More specifically, it is also concerned with laying the foundations for a discussion of how economic liberalisation forms a

² See for example Daniel Yergin & Joseph Stanislaw, *The Commanding Heights: The Battle between Government and the Marketplace that is Remaking the Modern World* (New York: Touchstone/Simon & Schuster, 1999), especially "The Birth of Privatization", pp. 114-117.

³ Nazih Ayubi, "Etatisme versus Privatization: The Changing Role of the State in 9 Arab Countries", *Economic Research Forum for the Arab Countries, Iran and Turkey (ERF), Working Paper Series*, Working Paper 9511 (Cairo: ERF, 1995), pp. 7-9.

relationship with tourism. To that end it also looks at the nature and process of economic liberalisation in the Middle East, the major arguments for and against economic liberalisation, and the underlying assumptions about how economic liberalisation is linked in to the political economy of the state that is implementing it, and how this, in turn, is also related to the political dynamics surrounding tourism policy and practice. It begins with an overview of the basic assumptions of economics, and how the theorisation of economic policy has developed during this century. It then looks at the manifestation of economic liberalisation in the contemporary Middle East, and the form that this takes. It concludes by outlining some basic assumptions, and a hypothesis, on how economic liberalisation is linked to, or forms a relationship with, tourism in the Middle East context. Further chapters, based on case studies, then test the validity of these assumptions.

MARKETS OR PLANNING? THE FOUNDATIONS OF POLITICAL ECONOMY

An important precondition to discussing the nature and logic of economic liberalisation is to outline the basic premise of economics, or more accurately, political economy. In laying out this context, and identifying where economic liberalisation falls within it, it is then possible to extend the discussion to its political context.

The *raison d'être* for the discipline of economics is to provide explanations and mechanical tools for the production of goods and services, and the efficient and equitable allocation of resources. The general problem is taken to be that people have unlimited desires or wants, but limited resources with which to seek to satisfy these wants. The issue then becomes one of prioritising these wants, since not all can be satisfied, and as a second issue, how to manufacture or supply most effectively and efficiently the goods and services that comprise these wants, as efficiency will

enable a greater amount or number of wants to be satisfied.⁴ In addressing this question, economists have formulated theories that revolve around either the use of the free market (allowing the forces of supply and demand to determine what, when, how, and for whom goods and services are produced), or through state planning and central management of the means and processes of production.

The case in favour of planning is based on the apparent failure of market forces to distribute wealth and resources fairly or efficiently. The competitive nature of market exchange is seen as wasteful — as hardly an efficient way to satisfy wants. Market failure, above all, is viewed as the key argument in favour of planning: that if left to itself, the market will create imperfections that it cannot solve. The manifestations of market failure include imbalances of power created by the market's propensity to allow the formation of monopolies or oligopolies, and by externalities such as pollution and by imperfections such as inadequate information, structural rigidities, and speculation. The case in favour of the market usually rests on questions of allocative efficiency and the maximisation of production in areas where demand is greatest. It also asserts that there is a government failure — in much the same sense as proponents of planning talk about market failure — whereby governments are rigid, stifle creativity, change, and initiative, make bigger mistakes than firms or individuals, and are not in the position to know as much about an individual's preferences than that individual himself or herself.⁵ Economics rests upon these two approaches for the theories that have developed to explain ideal models of economic management and policy-making. It goes without saying, however, that markets and planning, in their simplest form, are inadequate and inappropriate as explanations of how to manage an economy. Both approaches are equally idealistic and quixotic, and although there are extreme theories that hold that

⁴ James A. Caporaso & David P. Levine, *Theories of Political Economy* (Cambridge: Cambridge University Press, 1992), chapter 1 and especially pp. 21-32.

⁵ The concepts of markets and planning are central to economic theory; a good summary is provided in Habibullah Khan, "Markets Vs Planning", in Anthony T. H. Chin & Ng Hock Guan (eds), *Economic Management and Transition towards a Market Economy: An Asian Perspective* (Singapore: World Scientific Publishing, 1996), pp. 12-35.

one or the other is practical, there is no experience from reality to indicate that this is so. Pure free markets, and pure state planning, do not work in practice because they are based on assumptions of static conditions (that never occur in a functioning economy and society), unrealistic expectations of human behaviour, and an ignorance of the political dynamics that skew otherwise predictable behaviour and outcomes.⁶ The history of economic thought in the twentieth century has, therefore, revolved around the question of how to mix markets and planning, or more precisely, how to achieve an optimal balance between market forces and the role of the state in economic management, including planning.

THE EVOLUTION OF POLITICAL ECONOMY THOUGHT AND THE ORIGINS AND DEVELOPMENT OF STATE-LED ECONOMIC MANAGEMENT IN THE MIDDLE EAST

From the simple concepts of market and planning economics come the more detailed theories of economic management and development that have been put into practice in the Middle East and elsewhere.

The Liberal Age in the Middle East coincided with a period in which free market economics was globally dominant in economic development thinking. Beginning in the 1870s, and based on some of the (misinterpreted or misunderstood) principles outlined by Adam Smith in *The Wealth of Nations* in 1776,⁷ a neo-classical school of economic thought dominated economic debate. The key insights of Smith into the free market — including the oft-quoted "invisible hand" of supply and demand — were propounded by the neo-classicists as the ideal economic

⁶ See, for example, Eva Marikova Leeds, "The Birth and Death of Central Planning", in Ingrid H. Rima (ed), *The Political Economy of Global Restructuring: Volume 1, Economic Organization and Production* (Aldershot, UK: Edward Elgar Publishing, 1993), pp. 27-36. For an alternative approach, see Samir Amin, "Contribution to a Debate: The World Capitalist System and Previous Systems", contributory chapter in Fawzy Mansour, *The Arab World: Nation, State and Democracy* (London: Zed Books, 1992), pp. 1-27.

⁷ Adam Smith, *The Wealth of Nations* [1776], (Oxford: Oxford University Press, reprinted 1976).

system, with the model of perfect competition in an economy creating a situation of optimal allocation of resources.⁸

It was not until the Great Depression of the 1930s that Western economic thought seriously challenged the concepts underpinning the neo-classical approach. Marxist economic thought had developed by this time, and a form of it had been adopted in the Soviet Union after the revolution of 1917, but among the colonial powers that dominated the Middle East, and their indigenous representatives, neo-classicism had remained paramount throughout and after this period. The changes in Western approaches to economics came from the apparent market failures that caused the Great Depression, and from a growing body of thought that saw a role for government in addressing instances of market failure. These challenges to the perceived purity and perfection of the market came from several quarters. The most well-known challenge to neo-classicism was Keynesianism. Keynes argued that state intervention was necessary to correct fluctuations in the market — fluctuations that occurred as indications of the flaws of neo-classicism. Keynes proposed that the market was unable to guarantee stable full employment, and that demand failures in a market economy could lead to protracted periods of low economic activity and, therefore, economic recession as part of the 'business cycle' (that is, the ups and downs of the market over time). In periods of recession or a downward trend in economic activity, government should spend more on major projects to create employment and stimulate economic activity and investment by business in new projects. This led to the mixed economy mode of economic management that was cemented at Bretton Woods (when the World Bank and IMF were formed), and lasted until the emergence of economic liberalism and free market orthodoxies in the 1970s.⁹

By the time that Keynesian thought was emerging as the economic orthodoxy

⁸ Khan, *op. cit.*, p. 16.

⁹ For a good explanation of this, see Yergin & Stanislaw, *op. cit.*, especially pp. 9-17, but also chapters 1 & 2.

in the West, most of the Middle East had gained its independence from the colonial powers, and new revolutionary governments were often taking power from the ancien regime. The new governments, set on modernisation and economic development, faced the question of what economic policies to adopt for economic development. Almost exclusively, these governments chose policies of state-led development and étatist economic management. The origin of these policies can be found in several characteristics of the post-independence Middle East, and of the international economic environment as a whole. In some respects, they followed the Western model that came out of Bretton Woods, although in many cases (Egypt, Syria, Iraq, Algeria) to a more radical extent.

John Waterbury identifies, in the context of Egypt, India, Mexico and Turkey, the five most likely reasons for the adoption of state-led development and ISI.¹⁰ They are:

- Ideological commitment to SLD and ISI policies, especially as each country had a strong, ideological leader at the time such policies were initiated;
- Strategic behaviour, in destroying the old or alternative power centres attached to other options and earlier economic models;
- Inadvertance, whereby the agents of transition towards SLD and ISI took the policies further than the initiator intended;
- A lack of alternatives, especially given the international pressure to adopt such policies; and
- Hubris, referring simply to the desire of the initiators to implement drastic change on the economy and society.

Waterbury convincingly argues that SLD and ISI policies were not structural necessities for the economic development of the states, thereby giving a sense of

¹⁰ John Waterbury, *Exposed to Innumerable Delusions: Public Enterprise and State Power in Egypt, India, Mexico, and Turkey* (Cambridge: Cambridge University Press, 1993), p. 33.

"voluntarism" to the actors that implemented these policies. In an earlier work with Alan Richards, however, Waterbury seems more inclined to allow ideological commitment, as well as a lack of alternatives, to dominate the motivations of SLD initiators; with a state facing often-severe under-development, and with a private sector unable, or unwilling, to provide the investment and entrepreneurship necessary for national development, the policy options for economic development were indeed limited.¹¹

Not necessarily incompatible with these concepts is Nazih Ayubi's view that SLD and ISI formed part of the larger picture of state-building and nationalism in the region. In reply to whether or not there existed (or exists) a "socialism" in the states of the Arab World, Ayubi argues simply that socialist labels were adopted to build the patriotism and nationalism necessary for the populist regimes of the region to build and consolidate on their power.¹² In this sense, SLD, ISI, and other such socialist policies did not represent an ideological commitment to these goals in the sense of Waterbury's first point above, but were more in tune with Waterbury's other points relating to political expediency and strategy. Ayubi quotes an earlier piece by Chatelus and Schemeil to make his point:

Confronted with the major problem of building domestic order and regional stability, the Middle East Arab States tend to use economics as a way of solving strategic puzzles. It is the very industrialisation process which contributes to state-building rather than the state which helps to build a national industry.¹³

At this time, it must be remembered, the international trend was towards a greater role for the state in economic planning and management. Keynesianism, and some of the other economic theories developed from Keynesianism in the West after

¹¹ Alan Richards & John Waterbury, *A Political Economy of the Middle East*, 2nd Ed (Boulder: Westview Press, 1996), chapter 7, especially pp. 174-175.

¹² See for example Nazih Ayubi, "Withered Socialism or Whether Socialism? The Radical Arab States as Populist-Corporatist Regimes", *Third World Quarterly*, 13, 1, 1992, pp. 89-105.

¹³ M. Chatelus & Y. Schemeil, "Towards a New Political Economy of State Industrialization in the Arab Middle East", *International Journal of Middle East Studies*, 16, 1984, p. 257, quoted in *ibid.*, p. 91.

World War Two, was the dominant development approach in both the developed and the developing world. The World Bank and the International Monetary Fund (IMF), while now advocating economic liberalisation and market forces, until recently offered state-based solutions to the problems of economic development. Marxists, dependency theorists, and the like are delighted to "recall the long period between 1950 and 1980 in which these very institutions [The World Bank and the IMF] trumpeted the pivotal role of the state in economic development."¹⁴

Marxists and other members of the Left, of course, see the transformation towards SLD and ISI in a different light, although they do not agree on the exact nature of the changes that occurred during the 1950s and 1960s. Marxism in its simplist form viewed the changes either as a stage of post-capitalist transformation or, more commonly, as a case of the state having been hijacked by the bourgeoisie. For example Samir Amin, one of the Arab World's most prominent dependency theorists who draws heavily on Marxist views, sees SLD and ISI as having been untenable from the start. To him, such policies were betrayed by the indigenous bourgeoisie from the beginning, and were part of an effort by the key proponents of the world economic system (the core, or metropole) to integrate the developing world (the periphery) into that system. As a critic of the doomed-from-the-start SLD and ISI period, and an even more scathing critic of the economic liberalisation period that has followed, Amin argues that the Middle East, and the developing world more generally, should "delink" itself from the international system to which it will always be a slave.¹⁵ Amin concedes the difficulty of delinking with reference to the bourgeoisie and local elites, which he blames for destroying genuine attempts at SLD and ISI, and who he describes as "less and less divided between their national tendency and their tendency to surrender to global constraints, and [who] will increasingly join the camp of acquiescent compradors."¹⁶

¹⁴ Kiren Aziz Chaudhry, "The Myths of the Market and the Common History of Late Developers", *Politics and Society*, 21, 3, September 1993, p. 266.

¹⁵ Amin in Mansour, *op. cit.*, pp. 19-26.

¹⁶ *Ibid.*, p. 22, also quoted in Robert Springborg, "The Arab Bourgeoisie: A Revisionist

Writing with hindsight, however, such quixotic views are less common (and less tenable). The sources of SLD and ISI were probably closest to those suggested by Ayubi, although Waterbury's point about the strategic political goals attached to these policies is also notable. The governments that came to power at the end of the colonial period in the Middle East faced numerous challenges, not least of which came from the entrenched elites that had emerged, or consolidated their power, under the colonial system and the liberal economic system of the time. The new regimes were, furthermore, led by a modernising middle class that also embraced — partly in practice, and partly only in rhetoric — the populist, leftist ideologies of state-led development and étatism. Genuine Marxist movements did, of course, exist at the time, but were as unpopular with the new regimes as they had been with the ancien régime. Keeping both the old elites and the left in check, while mobilising massive popular support, saw the new governments and their leaderships attempt to develop quickly a state system. SLD and ISI served to discredit the ancien régime, to placate (to some extent) other leftist competition, and to rally large scale support behind the new government. To the extent that the new governments supported the concepts of egalitarianism and economic development, and given that many were also comprised of leaderships that were ideologically committed to economic modernisation, socialist policies such as SLD and ISI can be traced to a genuine attempt at change. Equally important, however, was to be *seen* to be committed to state-led development and other populist policies. Socialist rhetoric was also driven by external financial strategies, as beyond its domestic political uses, it also allowed Nasser to tap into the USSR's coffers.

This type of hypothesis also matches with the evolution of SLD and ISI in the Arab Middle East, but it is not to say that pragmatic concerns for political consolidation were the only reasons for the adoption of SLD and ISI. There is no doubt that many Arab states at the time of decolonisation faced severe economic and

social problems, stemming largely from the inadequacies of the previous economic system — problems which, in many cases, exist to the present day. There were, according to Richards and Waterbury,¹⁷ three main constraints to economic development under the previous, colonial period. The first was that economies at the time were based on the production of basic agricultural commodities, which were usually of low value and required little if any skilled labour to produce. Second was a lack of education and technology, which had also hindered economic development and provided economic opportunity to only a handful of people. And finally, this agrarian system had been forced into the international division of labour, trapping it into a permanent state of poverty. The assumption among national leaders at the time was that the private sector was unable to provide the capital and technology needed for economic development, in the form of investment and financing, and that state-led development was the only way to guarantee that the infrastructure and basic social requirements of development could be met. In this sense, the leaderships that introduced SLD and ISI were acting as much in the interests of economic development as for personal political gain, although the two were, more often than not, very compatible.

Nonetheless, the nature and characteristics of SLD in the region are interesting, in the sense that there was not adequate structures in place, or commitment from political and bureaucratic elites, to fully implement or sustain a truly socialist development strategy. Instead, SLD and ISI created a heavily bureaucratic system of state-led economic management, with some socialist-style policies standing alongside quite contrary policies. Essentially, SLD, of which ISI was one aspect, was a loose combination of étatist and welfare policies, often flowing from domestic or external concerns or challenges.¹⁸ In this sense, it was a form of "socialism without socialists."¹⁹

¹⁷ Richards & Waterbury, *op. cit.*, p. 174.

¹⁸ Ayubi, *op. cit.*, p. 94.

¹⁹ *Ibid.*, p. 94.

Many of the initial characteristics of SLD were similar to the 'socialist' experiments elsewhere, although as mentioned, not as extensive or coherent. The basic components were: nationalisation of key public enterprises; bureaucratisation (as a form of both employment and greater state control over economic and other activity); firm restrictions on trade, which usually went through a government controlled body; land reform; and welfare policies. Import substitution industrialisation was a salient feature of this transformation, within the framework of modernisation and industrialisation more generally. ISI was seen as a way to develop, while protecting, local manufacturing and technological capabilities, seen in turn as the path to modernisation and development. Many of these reforms went further in countries where a revolution took place — that is, where there was a dramatic change of government through a coup d'état or a popular uprising against the *ancien régime*. Egypt, Syria, Iraq, and Algeria are examples, as would be Tunisia, had it not embraced aspects of economic liberalism as early as it did, or Mussadeq's Iran, had Mussadeq's government not been overthrown so quickly. Beyond the similarities in economic policy, these states' experiments with SLD did vary, depending on the extent of nationalisation that was undertaken, the relations between the public and private sectors (and the relative strength of each), and the emphasis that each leadership placed on ideological goals and commitments. The willingness, two or three decades later, to dismantle the populist-authoritarian-state led structures and introduce economic (and for that matter political) liberalisation, and the pace at which this has happened, is also linked to these factors.

The evolution of SLD highlights the weaknesses of it as a mode of economic development, and of state-led structures more generally. The structural deficiencies of greatest impact proved to be those that created a drain on public resources. Many state-owned enterprises (SOEs), with soft budgets and the protection of monopoly and high tariffs on competitive products are an example, as are the populist welfare policies such as artificial employment creation through a bloating of the

bureaucracy. Artificially high exchange rates, low public sector remuneration, and high military budgets and military-dominated political economies in general did not help either. In much of the Middle East, what emerged over time under SLD was a form of corporatism, or state capitalism, that contained the structural weaknesses and deficiencies that ultimately led, in conditions of economic or fiscal crisis that challenged the structural inadequacies of state capitalism, to the adoption of economic liberalisation.

State capitalism proved to be a major problem in state-led development. It created "a state bourgeoisie that controls but does not own the major means of production."²⁰ State capitalism manifested itself in one (or both) of two ways.²¹ One was by the state attempting to reach overwhelming dominance of the economy, by using public and private profits and rents to finance its expansion. Egypt from the early 1960s to the promulgation of *infitah*, and Syria in the radical Ba'ath period of the 1960s, provide the best examples. The more common alternative, and the one that persists in many states to the present, is where the state nurtures the private sector by absorbing its risks and losses. The state, or the state capitalist elites that dominate the system, provide the social overhead capital, subsidised or cheap inputs, and legislation that the private sector needs in its undertaking of profitable activity. The state capitalists themselves are often inclined to move into the private sector, as a way of increasing and privatising their wealth and power. Egypt and Syria, since 1974 and the late-1980s respectively, provide examples of this form of state capitalism. The problem is, of course, that using public money and debts to subsidise and make profitable the private sector, is not necessarily sustainable. It does not do much for social cohesion either, especially when financial constraints reduce the services that the state can provide, at a time when key state capitalists and private sector elites are seen to be becoming increasingly wealthy. Although state capitalists

²⁰ Richards & Waterbury, *op. cit.*, p. 201.

²¹ *Ibid.*, pp. 201-202.

exhibit some of the characteristics of a social class, resembling in some ways a bourgeoisie, they are drawn originally from various parts of the political economy and are probably the result of a class vacuum, where a weak private sector, proletariat, and peasant class allows the rise of a dominant state bureaucratic class instead.²²

ECONOMIC LIBERALISATION IN THE MIDDLE EAST: SOME CONCEPTUAL AND THEORETICAL IDEAS

The structural deficiencies of SLD, which include state capitalism but also the difficulty of mixing *étatisme* and welfare policies without the financial foundations and practices necessary to ensure economic development, meant that when economic crisis surfaced — usually caused by external problems — the system had nowhere to go. SLD had exhausted its options. There was not enough money available to 'buy off' disgruntled sections of society, including (or especially) those suffering most from the economic crisis. By virtue of its external sources, an economic crisis could not typically be solved by external means (aid, loans, trade liberalisation) alone. The state could usually not afford, in a political sense, the high risks of introducing democratic reforms as a way to placate the key forces on which it relied for legitimacy and, ultimately, for its power. The economic structures under which the political economy operated were seen as threatened, and the only possibility from both a political and economic perspective was for the state to cede some of its economic power, through economic liberalisation, in exchange for retaining as much of its political power as possible. Not surprisingly, an important goal of economic liberalisation in many cases has been to use it as a means to sustain the regime. A tripartite goal emerged, that of:

²² Waterbury, *op. cit.*, pp. 176-177.

- 1) Generating economic growth through trade and efficiency,
- 2) Creating a new bourgeoisie class that would be supportive of the regime and its efforts at economic liberalisation, and
- 3) Placating international actors upon which the state, and its liberalisation efforts, were reliant for aid or, just as often, international assistance and loans.

The mixture of these three strategies varied, but have so far all been present in the economic liberalisation efforts of the Middle East. As a generalisation, the more authoritarian states of the region have focused primarily on the first two, and in the case of Syria and Iraq especially, the first two almost exclusively, and the second in particular. Just as few regimes in the Middle East were genuinely ideologically committed to socialism or state-dominated economic systems, such regimes have abandoned SLD in favour of mixed economy models for equally pragmatic reasons. A move toward a mixed economy often has the effect of being able to counter the dominant classes under *étatisme*, while retaining the power bases of key clients within the state system, the party, and of course the leadership.²³

In other words, the regime obtains new sources of support, without seriously undermining existing ones. This is exactly what happened at the beginning of *infitah* in Egypt, and also in Syria a decade later as it began to implement economic liberalisation. This is discussed in further detail in the case study chapters that follow, but a brief mention is useful here in light of the trend that it demonstrates. The first extremely limited economic liberalisation was a form of power consolidation under a new leader, and occurred at a time of relative economic strength (in the 1970s, when oil revenues were flowing into Egypt and labour exports flowing out). Sadat first introduced *infitah* in 1974 after the political boost of

²³ See for example Robert Springborg, "Infitah, Agrarian Transformation, and Elite Consolidation in Contemporary Iraq", *Middle East Journal*, 40, 1, Winter 1986, pp. 33-52; and Matthew Gray, "The Political Economy of Tourism in Syria: State, Society, and Economic Liberalization", *Arab Studies Quarterly*, 19, 2, Spring 1997, pp. 57-73.

the 1973 Arab-Israel War, as a way to make his mark on Egypt, and to put the elites from Nasser's period in their new place. It was not until a genuine economic crisis in the mid-1980s, worsened by the 1990-91 Gulf conflict, that serious reform was implemented under Sadat's successor, Hosni Mubarak. In Syria the story is similar: president Hafiz al-Asad introduced the first economic reform measures in 1971-72, barely a year after gaining office, to consolidate his position and to rearrange the composition of power from the previous period. In particular, the initial reforms were not undertaken in a period of economic crisis or economic challenge to the new regime. As in Egypt in 1974, the reforms were based purely on a political motivation. Also, as in Egypt, a more profound economic liberalisation was later implemented, under the pressure of an economic crisis — the reforms that began in 1991 were the direct result of the economic troubles that had plagued its economic situation since the foreign exchange crisis of 1986.

The piecemeal introduction of economic liberalisation in the Middle East has created considerable theoretical debate over its exact nature and desirability. There is, of course, a group of theoreticians that see any form of economic liberalisation as negative, a reversion backwards in economic development terms. Not surprisingly, it is Marxists and others of the left, especially those who harboured dreams of a transformation from capitalism to socialism to communism, who see economic liberalisation and the transition to a greater emphasis on market forces as a case of backwardness. Samir Amin's concept of de-linking is one example. Other critics, often also taking a class approach to the analysis of economic liberalisation, see it less as a step backward than simply as a policy doomed to failure; dependency theorists, especially, see the bourgeoisie that emerges from free market economic systems as inherently unable to deliver economic development to society as a whole:

The national bourgeoisie of underdeveloped countries is not engaged in production, not in building, nor in labor ... Because it is bereft of ideas, because it lives to itself and cuts itself off from the people ... the

national middle class will have nothing better to do than to take on the role of manager for Western enterprise ...²⁴

While it may contain some truth, in the sense that elements of the *ancien régime* and some of the bureaucratic elites under SLD (especially the state capitalists) were bereft of development ideas or the motivation to seek viable development models for their states, such views ignore the fact that the bourgeoisie of developing states provides as good a hope as any for economic development. The urban working class and peasant class have never proven themselves capable of economic leadership either, and have typically played little role in the political processes involved in development other than as mobilised masses in support of the aspirations of other social groups.

More convincing arguments that challenge the logic or mode of economic liberalisation have come from more recent critics, who are less inclined to argue with the need for reform, and instead question the direction, pace, and the at times dogmatic extremism of neo-liberal development theory. One of the dangers attached to economic liberalisation, especially if it is ideologically guided and focused on a dramatic transformation of state, society, and economic structure, is that it becomes a dogmatic orthodoxy bent as much on social transformation as on economic restructuring. Change and restructuring are both inevitable and essential; even strident critics of economic liberalisation, in the form of neo-liberalism at its purest, tend to agree that

the term [structural adjustment] may refer to the continuous process of adjustment in an economy, developing or developed, resulting from changes in incomes, tastes, and technology as well as ever changing patterns of world trade ...²⁵

²⁴ Franz Fanon, *The Wretched of the Earth* (New York: Grove Press, 1968), pp. 149-150, quoted in Springborg (Winter 1993), *op. cit.*, p. 15.

²⁵ Radha Sinha, "Economic Reform in Developing Countries: Some Conceptual Issues", *World Development*, 23, 4, 1995, p. 558.

and that, "[i]n this very general sense, development is synonymous with structural adjustment."²⁶ The need for change and structural adjustment in the above sense, therefore, is not seriously challenged by theoreticians. But here it is not meant in the same sense as it is used by neo-classical or neo-liberal economic theorists and practitioners, who use it to refer to the transformation from SLD to a free market economic system, as opposed to the more generic meaning of the term.

There are several theoretical approaches to the problems of economic liberalisation, critical that the current free market orthodoxy of development has drawn its main concepts from neoclassical economic theory.²⁷ As with the basic models of economic planning discussed earlier, neoclassical economic theory suffers from the problems of assuming rational and predictable behaviour by individuals and forces in society, when the sum of rational actions does not always lead to a rational overall outcome, and worse, that it relies on assumptions of a static condition being achievable when, in fact, static conditions may be a useful theoretical aid but are also a practical impossibility. Many of these criticisms come from theoreticians who accept the basic premise of economic liberalisation and agree even for the necessity of it, but who also argue for a need to manage the transition more carefully than is being done at present, or who view the primacy of markets over other factors (social welfare, equitable distribution of resources, and the like) as questionable.²⁸ Still others are concerned with the ways in which economic liberalisation is implemented,

²⁶ Paul Streeton, "Structural Adjustment: A Survey of the Issues and Options", *World Development*, 15, 12, 1987, p. 1469, quoted in *ibid.*, p. 558.

²⁷ See for example Paul Streeton, "Markets and States: Against Minimalism", *World Development*, 21, 8, 1993, pp. 1281-1298; and Chaudhry, *op. cit.*; and also John Brohman, "Economism and Critical Silences in Development Studies: A Theoretical Critique of Neoliberalism", *Third World Quarterly*, 16, 2, 1995, pp. 297-318.

²⁸ See for example John Williamson, "Democracy and the 'Washington Consensus'", *World Development*, 21, 8, 1993, pp. 1329-1336, which argues that key economic orthodoxies should be universally endorsed, but that social welfare issues will still need to be fought out politically because of the challenge of finding a "trade off between equity and efficiency" (p. 1333), and the interesting chapter by Edith Penrose, "From Economic Liberalization to International Integration: The Role of the State", in Niblock & Murphy, *op. cit.*, pp. 3-25, which argues that cultural identities and differences need to be addressed in the search for a universal orthodoxy of development, and that from this, a consensus needs to be reached by states on the policies that will be propounded by international financial institutions such as the World Bank and the IMF. See also Brohman, *op. cit.*

concerned especially at the dangers of too rapid or uncoordinated a program of economic liberalisation.²⁹

Critiques of Economic Liberalisation

Many of the criticisms of the resurgence of neoclassical economics revolve around its attempts to minimise the role of the state in economic activity, and by extension, a criticism of the apparent 'mechanicalness' of neoclassical economics and other approaches of its ilk. Singled out for particular criticism is the apparent approach of neoclassical and other free market economic theories, that profess absolutely no role for political ideals or human behaviour, and which rely solely upon "the notion that economics is a universal, transportable science separable from a historically grounded political and social life..."³⁰ What follows is not an attempt to provide a descriptive outline of every single critique of economic liberalisation, but rather to highlight some of the key theories that address the shortcomings of, or possible difficulties with, economic liberalisation, particularly in the form that it is being implemented in the Middle East. From this, the aim is to identify the nature of economic liberalisation in the region, and some of the pre-requisites for its success. From there, an investigation of its relationship to tourism in the region can be made.

One view sees the dynamics of state and market, and their rise and fall comparative to each other, as being cyclical in motion.³¹ This view argues that the excesses of the state interventionist period, and especially the crisis in state finances, for example those manifested in an economic crisis of the sort experienced by the Middle East in the 1980s and early 1990s, weakened the state's economic power

²⁹ For example Ronald I. McKinnon, *The Order of Economic Liberalization: Financial Control in the Transition to a Market Economy*, 2nd Ed (Baltimore: The Johns Hopkins University Press, 1993). McKinnon argues for a particular order of policies in the economic liberalisation process, in contrast to a "crash program" of privatisation and banking reform.

³⁰ Chaudhry, *op. cit.*, p. 266.

³¹ Luiz Carlos Bresser Pereira, "Economic Reforms and Cycles of State Intervention", *World Development*, 21, 8, 1993, pp. 1337-1353.

relative to the market because it could not deliver plausible and practical economic development strategies. This gives rise to greater legitimacy for liberal forces and the market. But the market, too, suffers from problems; in particular, market failure and the undermining of civil society (or even the basic units of society, in the case of a more traditionally-structured society) create a resurgence in demands by society for state intervention. The wealth created by economic liberalism also has an affect on state strength vis-à-vis the market, as societies that grow wealthy tend to spend a greater proportion of wealth through the government.³² This strengthens the role of the state, thereby displaying the characteristics of a state-market cycle.

This approach contains some validity, in so far as the demise of the nation-state is unlikely to come from the current fashion of free market transitions, and a comparative resurgence of the state is not unlikely either, as free markets are inclined to create a large body of displaced and disillusioned people. The main weakness of this argument, however, is that states and markets have evolved throughout history, and are not in a perpetual motion cycle. This poses questions about the evolution of both states and markets, and largely excludes a cyclical model that does not explain the development of states and markets, and how this evolution fits into a wider cyclical motion. The only alternative is to argue that the cyclical stage represents a convergence toward the peak of evolution of both states and markets; an "end of history"³³ type argument that has been widely discredited as a simplified, unsustainable rehash of modernisation theory.

Another theory which retains a strong role for the state is the Structuralist approach, whose most well known proponent was Gunnar Myrdal. Myrdal and others show the developing world to be at a comparative disadvantage under conditions of a free market, which does not have the allocative efficiency and

³² *Ibid.*

³³ The "end of history" view reached a moment of prominence in the early 1990s with the publication of Francis Fukuyama, *The End of History and the Last Man* (New York: Free Press, 1991). Fukuyama argued that a combination of social democracy and free market economics provided the only viable mode of development and social organisation, and its ascendancy would ultimately herald the ideological "end of history".

efficacy due to imperfect market conditions in the developing world and the relative infancy of economic structures. To overcome the rigidities and deficiencies of the structures within which a developing economy must operate, the Structuralist approach argues that the government must take a more activist role in the economy, intervening to support, develop, or at times replace the private sector. The strength of this approach is not only that it advocates a more realistic and less arbitrary "Third Way"³⁴ that recognises the flaws of both Marxist and neoclassical economics. It also allows for the positive aspects of market forces as a development approach, including the use of prices as a tool for reform. Myrdal recognised the strength of prices for allocative efficiency and the responsiveness of economic actors (when used correctly and managed by a government), while also giving a pivotal role to both states and social forces and actors, including the elements of civil and traditional society. The Structuralist approach gained considerable support from development theoreticians and practitioners in the 1970s, and for a short time it was a key development approach embraced by multilateral lending bodies and other advisers to developing economies' governments. That Structuralism was shouldered aside by the neoliberal, free market orthodoxy was as much the result of a reaction against the perceived inefficiencies of government, and some case studies of government ineffectiveness in achieving development objectives, than of strategic flaws in the Structuralist approach *per se*.

As mentioned, the primary divide between theoreticians in the study of economic development and liberalisation remains that of determining what role the market should take vis-à-vis the state. It is possible, however, to separate the state from planning, following the State Primacy approach. State Primacy cites critical weaknesses in both Marxian and modernisation theory, and takes elements of each to argue that, instead, "a political structure selects economic relations that further technological development because that is functional for the political structure in so

³⁴ Streeton (1993), *op. cit.*, p. 1283.

far as it is a precondition for developing its defensive capability."³⁵ The State Primacy theory argues that emerging industries or sectors of an economy are the result of the state shifting its focus, which it will do if its sources of revenue decline or are threatened by the erosion of old sources of income. This argument seems strongest in the more authoritarian states of the Middle East such as Syria, where tourism has been nurtured by the state and developed according to the agenda of the state and its leadership. It has been used to supplement and expand state revenues; it is not coincidence that tourism development in Syria has occurred at times when state revenues from other economic activities are in decline or are performing poorly.

The above theories share certain characteristics in common. The most obvious is their eclectic nature; the fact that they draw on several approaches to explanations of political economy to explain the problems of economic development and the place of liberalisation and reform within it. There are few viable explanations that take an extreme position of either state minimalism or, given the post-Cold War experience, few that make a plausible argument for state-dominant economic management operating in an environment absent of a private sector. In the study of the developed world, there seems to be something approaching a consensus on key issues; perhaps a theoretical consensus similar to that which John Williamson proposed when he wrote of the "Washington Consensus".³⁶ There is considerable agreement that a strong state is a pre-requisite for the liberalisation process to proceed effectively. The withdrawal of the state from economic affairs, which is often seen as essential to the marketisation of economies, is in fact very dangerous. It is one thing to assign the state a lower profile in economic production or the ownership of the means of production, but it is another issue where the state retreats from the strategic guidance of the economy, or from providing a safety net for those

³⁵ See Alan Carter, "The Nation-State and Underdevelopment", *Third World Quarterly*, 16, 4, 1995, p. 595.

³⁶ Williamson, *op. cit.*, pp. 1329-1336.

dislocated by reform, or from the provision of a proper legal structure and system. The controlled liberalisations of the 1970s and onwards — in China, Chile, Vietnam — have proven far more effective, and less socially or politically destabilising, than the rapid economic transformations under a weak or disintegrating state, such as those in the former USSR and Eastern Europe. The mistakes made in Latin America included an overly-rapid retreat of the state, and more importantly an economic liberalisation program that did not focus on the order of reforms, which in turn created a debt crisis and very unequal liberalisation results.

In addition to a strong state, economic liberalisation also relies on a coherent reform agenda, matched with a commitment by not only the state, but also major segments of society, to the reform process. The order of economic liberalisation and reform determines, to a great extent, its chances of success. Not only are rapid transformations more prone to instability and therefore failure, but the degree to which the state retains financial control is also vitally important. McKinnon's work on this subject is particularly important. Using as case studies a variety of successful and unsuccessful reform programs from the past two decades, he argues that the "the pace of liberalizing foreign trade must be carefully geared to the pace of price decontrol, existing tax mechanisms, and the degree of financial liberalization in domestic commerce."³⁷ A focus on the sequence of actual reform measures, as McKinnon provides, goes far beyond the traditional assumptions that ignore the smaller detail of reform and offer only the sequence of 'stabilisation to liberalisation to marketisation'. McKinnon's key points are that the state that implements reform needs to be aware of the price decontrol position in which the country is placed. Successful liberalisations have been based on making correct assumptions or analyses about this situation (in affect, being aware of the extent to which the country is ready for reform). And above all, the state needs to be in a position to guarantee that, in a liberal market structure, the state will be able to meet its

³⁷ McKinnon, *op. cit.*, p. 217.

obligations to society through the effective collection of adequate taxation revenue.

The path that economic liberalisation has taken in the Middle East highlights several features of their political economies, and the experiences with liberalisation elsewhere in the world serve as something of an example for liberalising states in the Middle East. In all cases, economic liberalisation in the Middle East has been far more gradual than in the ex-socialist states of Eastern Europe. If, as Ayubi and others have argued, the Middle East was never 'socialist' to begin with, and the transformations towards socialist-style policies were the result of political manoeuvring and regime consolidation as much as of ideological commitment, then it is not surprising that reform has been slow-paced and less dramatic.

THE COURSE OF ECONOMIC LIBERALISATION IN THE MIDDLE EAST: A COMPARISON OF EGYPT, JORDAN, AND SYRIA

The course that economic liberalisation processes in the Middle East have taken highlights the motivations and power balances of the actors and forces that influence it, and also provides some insight into the likely relationship between this process and the political economy dynamics underlying tourism policymaking and reform. Specifically, in the cases of Egypt, Jordan, and Syria, the origins, course, and current situation of economic liberalisation, and the future ambitions attached to it by key actors, illustrate through both generic and unique features a link with tourism.

The Origins of Economic Liberalisation: Key Political Features and Dynamics

The origins of economic liberalisation are most often found not in the sources that have sustained reform in the 1980s or 1990s — most obviously state economic or financial crisis and, to a lesser degree, changes in state relations with society — but in new leaderships. The cases of Egypt and Syria in particular suggest that the

very first steps of economic reform, whether or not it is also accompanied by political reform or reorganisation, is primarily undertaken either as a mark of new leadership, or to indicate a political reorientation.

New leaderships used in this term refers to Hafiz al-Asad of Syria and Anwar Sadat of Egypt, not to the earlier post-colonial regimes of the region who stamped their mark on the political economies they inherited by implementing policies of SLD, ISI, and other similar ones. It was the leaders that followed this period, who came to power in the 1960s, 1970s, or later, that marked a new period in their societies' political histories by reforming or reorganising economic policy. One of the first significant moves by Asad upon assuming power was to introduce what was termed *al-haraka al-tashihiyya*, or "the correctional movement", which allowed for a modest increase in private investment.³⁸ More important, however, was the role it played as an opening statement of Asad's premiership, with *al-haraka al-tashihiyya* signifying that Asad's regime would be less radically based on state ownership and control of the economy than had been the case under his predecessor. In Egypt, the initial movement towards economic liberalisation was even more pronounced; in part it signified the new hand of Sadat at the helm, but was equally important as an aspect of Sadat's reorientation of Egypt away from the Soviet Union and towards the United States and the West. In his first three years in power, Sadat was in the shadow of Gamal Abdul Nasser, who had died in 1970 as, in effect, the leader of the Arab world. Sadat used the announcement of *infitah* in 1974 partly to cement his position, partly to mark his leadership as separate and different to Nasser's, but above all as a way to reorientate Egypt's external relations.³⁹ In Jordan there was not a dramatic transition as there had been with the Egyptian and Syrian radical transformations, and thus a comparatively effective private sector retained

³⁸ Volker Perthes, *The Political Economy of Syria under Asad* (London: I. B. Taurus, 1995), p. 40. The details of *al-haraka al-tashihiyya* and Asad's initial reforms are discussed further in chapter six of this thesis.

³⁹ See for example William J. Burns, *Economic Aid and American Policy Toward Egypt, 1955-1981* (Albany: State University of New York Press, 1985).

considerably more economic power.

None of this is to deny the role that economic imperatives have played in economic liberalisation, including in its initial formulation. However the economic crises — the kind of occurrences that forced more substantial changes in Egypt and Syria in the 1990s, and in Jordan in the late 1980s — were not the primary motivation behind the initial reforms of the 1970s. In Egypt, however, economic factors played a role in Sadat's *infitah*, as he was keen to obtain Gulf investment in projects that would employ Egypt's growing labour force. Likewise, on his assumption of power Asad was seen as something of a comparative moderate, who in all likelihood was interested in closer economic ties with the West and its Middle Eastern allies.⁴⁰

The role of internal actors and forces at the initial stages of economic liberalisation, therefore, was limited. In the case of Syria, where the *ancien regime* (and especially its foreign components) had been decimated by the revolutionary governments of the 1950s and 1960s, there was little left of the merchant class besides the small shopkeepers and craftspeople of the souqs. Certainly, the private sector could not supply investment funds or high-skilled services or technology. In Egypt, more of the private sector was kept intact than in Syria, and many waited out the Nasser era to re-emerge in the *infitah* period, although as with Syria the wealthier classes, especially the landowners and foreign investors, were decimated. In Jordan, where the experiment with statism and the subsequent attacks on private capital was far less radical, a private sector remained in wait but did not assert political power to any significant extent.

The private sector classes and its salient actors, therefore, did not instigate initial economic reforms, although they undoubtedly appreciated it. This is in contrast to the subsequent stages of economic liberalisation, when social forces in the political economies of these states played important roles in the reform process,

⁴⁰ Perthes, *op. cit.*, p. 41.

whether as agents exerting pressure on the government or as political allies of the government.

The Course of Economic Liberalisation

Egyptian, Jordanian, and Syrian economic liberalisation developed beyond the initial reforms of the 1970s, as a consequence of events that unfolded during the 1980s and 1990s. After an initial, very limited amount of change, the development of the reform process in many states of the region became more autonomous or, more accurately, was driven less by new leaders seeking immediate identification with the process, and became more of a reactive measure to financial crisis, diminishing regime legitimacy and internal and external pressure.

The course of economic liberalisation in the Middle East, in the period from the early 1970s to the late 1990s, demonstrates an awkward pattern of hesitation, interspersed with short, but often dramatic, bursts of reform. Charts 1-3 illustrate this pattern. In some cases, such bursts were implemented to completion. In other cases they were not, whether because of a lack of political will, inadequate support from key constituencies of the regime, or supercedence by other changes. The sources of this pattern also derive in part from the political scenario that much of the Middle East faced in the 1970s and 1980s, characterised by governments that did not want to cede political power in the process of economic reform, with its traditional constituencies largely opposing economic liberalisation but new or traditional private sector classes pushing for it. In the case of Egypt and Jordan, significant external pressure, from the United States as well as from international lending bodies such as the World Bank and the IMF, added to the equation. The supporters of economic liberalisation were most vocal and most likely to get their way in periods of economic crisis or hardship, while at other times the reform process stalled for lack of a financial imperative and the political will to disrupt the economic and

social status quo.

The Egyptian, Jordanian, and Syrian leaderships set about addressing the politics of economic liberalisation in different ways. In Egypt, there was initial controversy over *infitah* as it became seen as largely unproductive and characterised by the worst aspects of a parasitic bourgeoisie. This led to the addition of *al-intaji* ("productive") to the term *infitah*, although its basic attributes changed little as a result. The liberalisation process took a back seat in the first decade of Hosni Mubarak's rule, a period when economic reform was "dilatory" and gradual.⁴¹ It was only after the 1990-91 Gulf conflict that economic liberalisation rapidly accelerated, when there was economic pressure for reform, less domestic hostility to it, and when Egypt had won considerable debt forgiveness from the United States.⁴² This juncture was one where the domestic opponents of liberalisation were overpowered by external proponents of reform (the United States and the IMF), and where in light of economic need, there was stronger-than-usual government commitment to liberalisation. In the mid-1990s, the reform process (especially the privatisation programme) was not moving as quickly as had been anticipated, perhaps indicating another period of stalling over reform, as economic conditions had greatly improved and the impetus for reform therefore diminished somewhat.

In Jordan, the pattern of hesitation, then a crisis-led stage of reform, is equally pronounced. The most substantial stage of economic liberalisation — that following the 1989 agreement with the IMF — was a direct outcome of economic stagnation and a state financial crisis that had been characterised by budgetary and balance of trade problems. King Hussayn's hesitation in implementing reform stemmed from domestic political opposition, especially to price rises, the threat of

⁴¹ The description "dilatory" comes from Alan Richards, "The Political Economy of Dilatory Reform: Egypt in the 1980s", *World Development*, 19, 12, 1991, pp. 1721-1730. The slightly kinder term "gradualism" is used in Denis J. Sullivan, "The Political Economy of Reform in Egypt", *International Journal of Middle East Studies*, 22, 1990, pp. 317-334.

⁴² See for example David Seddon, "The Politics of Adjustment: Egypt and the IMF, 1987-1990", *Review of African Political Economy*, 47, Spring 1990, pp. 95-104; and Tim Niblock, "International and Domestic Factors in the Economic Liberalization Process in Arab Countries", in Niblock & Murphy, *op. cit.*, pp. 58-71.

unemployment, and taxation reform. These fears were not unfounded, as demonstrated by the riots that broke out over price rises after the 1989 IMF agreement. Earlier reforms had been gradual, and were typically watered down in light of opposition. In Jordan, the battle for control of economic policy was fought, as in Egypt, between domestic and international supporters of reform, and the domestic opponents of it. In Jordan in 1989, it was less a case that the former had gained the upper hand, and more a case of both strong leadership by King Hussayn and the severity of the economic problems confronting Jordan, that prompted a major step in the reform process.

In Syria, the economic liberalisation process was partly a response to economic crisis — witness the reforms of the late 1970s and the early 1990s, both in response to dramatic economic problems and changes in Syria's external political and economic situation — but also a means of domestic political control for the regime and its president. There was a genuine need for economic change, especially in the second *infatih* of the early 1990s, which the regime appears to have recognised. Equally, however, the second *infatih* served the purpose of diversifying and integrating political support for the regime, especially after the collapse of the Soviet Union and domestic social changes that affected the regime's base of popular support. What emerged was a symbiotic⁴³ relationship between the regime and its key business elites, where the regime traded some economic power and favours for new sources of support and a reinforcement of its political legitimacy. In the absence of external pressure for reform — Syria has never invited the IMF to talk, nor does the United States play a significant role in pressuring Asad on economic matters — the case of Syria is somewhat unique compared with Egypt and Jordan. Domestic political dynamics have proven to be the key determinant of the direction and pace of reform in Syria. The Syrian political economy has not been sheltered from

⁴³ The term "symbiotic" is John Waterbury's. See Waterbury, *op. cit.*, especially chapter 8.

FIGURE 3-A: Egypt: Trends in the Economic Liberalisation Process

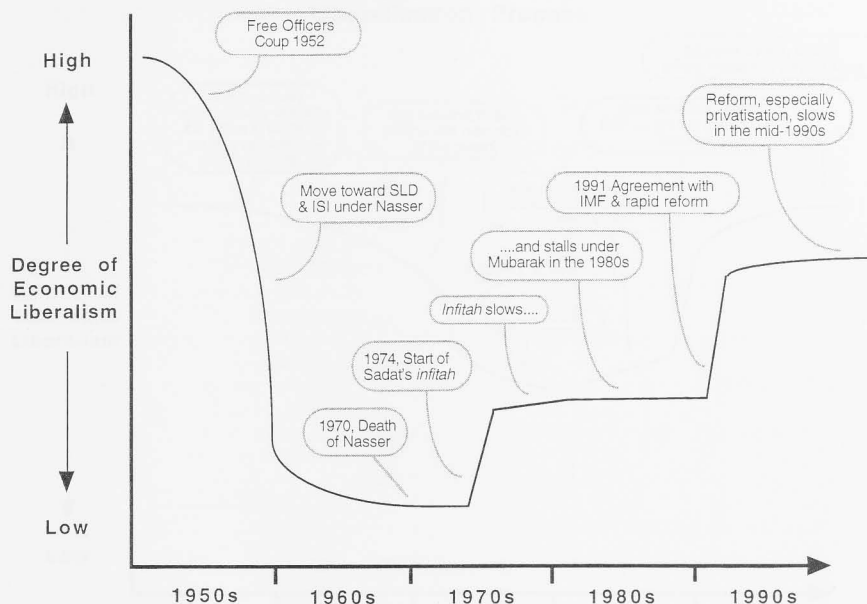


FIGURE 3-B: Syria: Trends in the Economic Liberalisation Process

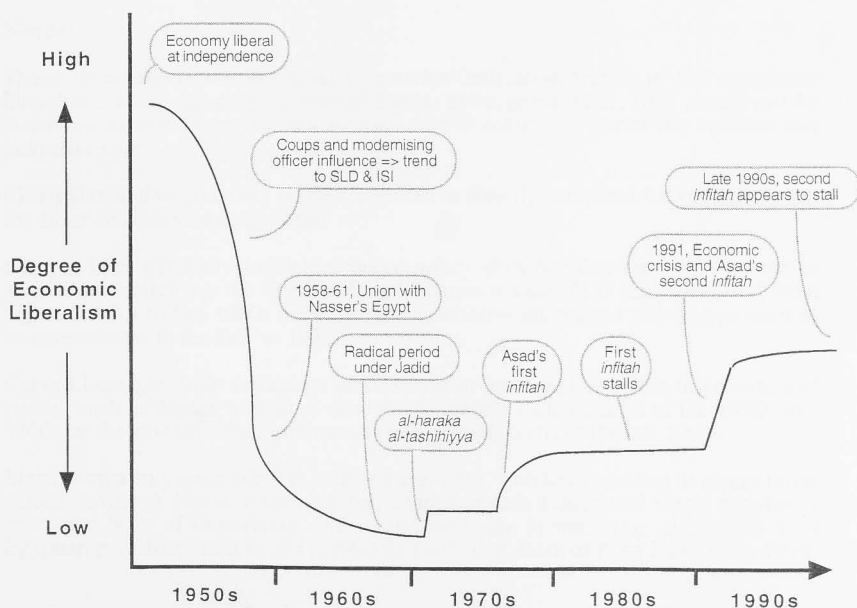
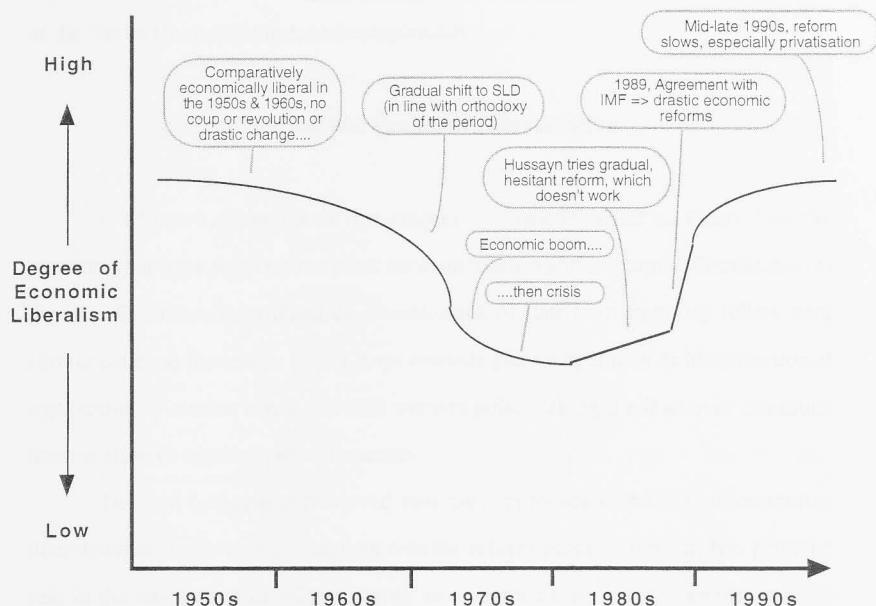


FIGURE 3-C: Jordan: Trends in the Economic Liberalisation Process



Notes:

These three charts are designed to provide indicative trends in the economic liberalisation and reform processes of Egypt, Syria, and Jordan. *They should not be construed as providing absolute or quantitative scales, all scales are relative and indicative only.*

Charts should therefore only be superimposed or directly compared for key trends, not for direct and absolute comparison.

Straight lines generally indicate a major policy shift or other emphatic change in government policy (eg: the Egyptian transformation towards SLD and "socialism" from the mid-1950s to late 1960s under Nasser, or reforms introduced after Egypt reached an agreement with the IMF in 1991).

Curved lines generally indicate a more subtle or less emphatic shift in government policy, such as Jordan's gradual movement towards SLD policies in the 1950s and 1960s, or the slowing of reform impetus in Egypt and Syria in the late 1990s.

Major events only are marked in balloons near lines, with lines pointing to approximate periods involved. Not all events can be included in such a chart, and events not shown have also been of importance and should be borne in mind (eg: assassination of Egyptian president Sadat in 1981, 1990-91 Gulf War, death of King Hussayn in 1999).

external pressures, however, as the economic problems stemming from the collapse of the Soviet Union demonstrated categorically.

Tourism and Economic Liberalisation

If Charts 1, 2, and 3 of this chapter are superimposed on Chart 3 of the previous chapter, a suppositional link between tourism and economic liberalisation is obvious. Economic reform and the liberalisation of state tourism policy follow very similar paths on the charts, taking leaps towards greater openness or liberalisation at approximately similar times, but with tourism policy taking the lead over economic liberalisation in terms of general openness.

Tourism has generally served two main purposes in relation to economic liberalisation. In periods of stagnation in the reform process, tourism has played a role in the suspension of reform, acting as a source of income and employment to allay the need for substantial reform. This only works to an extent, of course, and the relatively modest size of the tourism sector in Middle East states generally contributes little to the long-term viability of gradual or stagnant reform. When a crisis occurs necessitating further or rapid reform, the role of tourism becomes one of off-setting the negative impacts that initially accompany economic change and liberalisation measures. Tourism provides employment for labour that has become redundant in other sectors of the economy, it provides hard currency to support what is typically a large import and debt servicing bill, and it stimulates other sectors of the economy such as agriculture, construction, transportation, public works, and business-to-business services.

In turn, economic liberalisation often assists the development of tourism. In allowing greater freedom of economic activity, or in reforming taxation, or in easing labour laws, the liberalisation process makes it easier for both domestic and foreign firms to enter the tourism sector, and increases their profit potential. A state

commitment to economic reform is often attractive to foreign investors, who in entering a market typically create some employment for labour and transfer some of their technologies to domestic firms. The privatisation process makes state-owned enterprises more transparent and more efficient, and in the case of unprofitable ones, it reduces their drain on state funds. In the short term, however, the disruptive affects of privatisation are strong; a concern for this, and the political implications, are at the root of the delays in privatisation in Egypt, Jordan, and elsewhere.

The relationship, however, is more complex, and often less rosy, than would appear. The elements and actors that form a link between tourism and economic liberalisation are typically guided by individual or particular political dynamics, by more specific economic and financial concerns, and by motivations based on less obvious rationale. The relative power and influence of these forces and actors, and the approach they take to both economic liberalisation, are discussed in the chapters that follow, based on the experiences of Egypt, Jordan, and Syria over the past three decades.

CHAPTER FOUR

THE CASE OF EGYPT

Egypt can be called in a certain sense 'the mother of Arab liberalizations'. Just as she was the first Arab country to champion a leading public sector during the 1950s and 1960s, she also became the first (with the partial exception of Tunisia) to experiment with economic liberalization and privatization, from the mid-1970s onwards.¹

Egypt has passed through a number of stages this century in its search for economic development, and has placed varying degrees of emphasis on certain economic sectors, including tourism, during that time. These stages began with a liberal capitalist economy in the period prior to 1952, open to the world and, in large part, to foreign domination of its key industries. The inequities and strategic concerns of this period meant that drastic changes were introduced under president Gamal Abdul Nasser, who led a group of 'Free Officers' which seized power from the Egyptian monarch in 1952. Nasser set about implementing a variation of socialism, which included the nationalisation of important industries, an expansion in the size and influence of the bureaucracy, and agrarian reform. Foreign capital and the power of the old landed classes (*al-malaakun*) was decimated. The social results of Nasser's policies were somewhat successful in improving the living conditions of Egypt's poor and in creating greater economic equity, but flaws in the strategy, coupled with some events outside of the regime's control, led to its dismantlement under Nasser's successor, Anwar Sadat.

Sadat made economic reform a hallmark of his period as president. After assuming power, Sadat first cemented his regime and increased his legitimacy — assisted substantially by Egypt's performance in the 1973 Arab-Israeli war — and

¹ Nazih Ayubi, "Etatisme versus Privatization: The Changing Role of the State in 9 Arab Countries", *Economic Research Forum for the Arab Countries, Iran & Turkey (ERF) Working Paper Series*, Working Paper 9511 (Cairo: ERF, 1995), p. 7.

then turned to the economy. The promulgation of *al-infithah* ("opening") in 1974 was at first an attempt to accelerate the economy and provide employment by adding value to products at the Egyptian stage of the manufacturing process. But more than its basic economic goals, *infithah* was also an aspect of Egypt's re-orientation away from the Soviet Union and towards the United States and the West.²

The policy of *infithah* was paid considerable lip-service by Hosni Mubarak after he became president in 1981, but little reform of substance occurred until 1991, when an assistance and reform package was agreed with the International Monetary Fund (IMF). The IMF agreement rapidly accelerated economic restructuring and privatisation, and the Egyptian economy has become more integrated into the international economy than at any time since 1952. The Egyptian economy seems to be headed full circle.

Throughout these stages of economic change, Egypt has also led the Arab world as a tourist destination. The era of 'mass tourism' — characterised by large-scale, packaged, guided tours — began with the Thomas Cook Company, which commenced operations in Europe in the mid-nineteenth century, but soon after expanded to include tours of Egypt and the Holy Land.³ The first of Thomas Cook's tours to the Middle East in 1869 was immensely popular, and the company dominated a sizeable share of the Middle East tourism industry by late in the century, with Egypt and the Holy Land at the centre of its operations in the region.⁴

Since the 1952 revolution, tourism has been an important economic sector for Egypt, although also a volatile source of revenue. Whereas the share of other sources of income (such as Suez Canal fees, remittances from workers abroad, and foreign aid) from foreign exchange receipts has remained relatively steady, tourism has

² On the US-Egyptian relationship, see William J. Burns, *Economic Aid and American Policy toward Egypt, 1955-1981* (Albany: State University of New York Press, 1985); and William B. Quandt, *The United States and Egypt: An Essay on Policy for the 1990s* (Washington: The Brookings Institution, 1990).

³ On the Thomas Cook Company and its introduction of guided tours to the Middle East, see John Pudney, *The Thomas Cook Story* (London: Michael Joseph, 1953).

⁴ *Ibid.*, chapters 19-23.

fluctuated dramatically as a result of variations in the cost of travel, real or perceived international instability, and attacks against tourists by some Islamist groups.⁵ After the 1991 agreement with the IMF, tourism first took a turn for the worse, especially in the wake of the 1990-91 Gulf War and then in the years 1993 and 1994 when Islamist attacks against tourists were most visible and substantial⁶, but then improved dramatically thereafter, reaching a record number in 1995.⁷

This chapter examines the relationship between liberalisation and tourism in Egypt since the emergence of *infitah*, and especially the reforms which have occurred since 1991, and the political economy dynamics that have underpinned this relationship. A substantial part of the chapter is devoted to the issue of the privatisation of tourism in Egypt.

Several observations can be made about how liberalisation and tourism have inter-related in Egypt since 1974. Tourism has been targeted in the economic reform process for similar reasons to other Middle East states: its politically innocuous nature, Egypt's relative advantage in tourism, the ability of tourism to generate income and employment, and the willingness with which the private sector invests and involves itself in tourism and related sectors.

In terms of economic liberalisation, several stages can be identified. For liberalisation to accelerate dramatically, as it did after 1991, a combination of factors needed to be present; external pressure for, and assistance with, economic reform, an imbalance of power within Egypt in favour of the groups and actors which supported liberalisation, and the justification for reform. The latter has long been present in Egypt — it is difficult to argue that Egypt needs *no* economic reform — but the

⁵ Compare the changes in the contribution of tourism to foreign exchange receipts, in contrast with other sources of income, in Galal A. Amin, *Egypt's Economic Predicament: A Study in the Interaction of External Pressure, Political Folly and Social Tension in Egypt, 1960-1990* (Leiden: E. J. Brill, 1995), p. 44, (Table 3.2). Amin's figures include only the period 1974 to 1990, but tourism fluctuated greatly prior to 1974 as a result of the Arab-Israeli conflict, and since 1990 the fluctuation in tourism numbers and revenues has been equally dramatic.

⁶ Rodney Wilson, "Whither the Egyptian Economy?", *British Journal of Middle Eastern Studies*, 20, 2, (1993), p. 210.

⁷ "Egypt: 1995 was Record Year for Egyptian Tourism", *Reuters*, 11 February 1996, Article Reference 000788009113.

debate between 1974 and 1991 centred around the type of reform that was necessary and the extent to which it should be pursued. An economic boom in the decade 1974-1984 was a double-edged sword to those proposing greater economic liberalisation; a period of growth is the optimal time to initiate painful changes to the economy, but it also provides an excuse not to undertake reform at all.⁸

External pressure, from the United States and from international lending bodies such as the World Bank and the IMF, has also been a factor, but the challenge for international proponents of reform in the 1980s was to co-ordinate their lobbying activities, which they managed to do only towards the end of the 1980s.⁹ More important, they also had to overcome opposition within Egypt to reform, especially from powerful elements in the Egyptian political economy linked to the government such as state-sector managers, trade unions, and a private sector associated with the public sector and therefore sharing many of its interests. These groups were able to stifle or delay reform in the short- and medium-term, but over a longer time period their relative power was eroded by an expanding *infitah*-created private sector, which unlike other groups benefited little from the status quo and stood to gain substantially from further economic liberalisation. Under pressure, many groups opposing the reforms (such as trade unions and public sector managers) proved far less influential than expected. Trade unions were under tight government control, and public sector managers proved disorganised as an opposition force and ineffectual at coalition-building with other groups.¹⁰

Groups that supported economic liberalisation were, more often than not, to be found at the forefront of the tourism sector. The chapter argues that the Egyptian private sector has strongly supported both economic liberalisation and tourism,

⁸ This point is made by a number of authors, including Hans Lofgren, "Economic Policy in Egypt: A Breakdown in Reform Resistance?", *International Journal of Middle East Studies*, 25, (1993), pp. 411-412; and Alan Richards, "The Political Economy of Dilatory Reform: Egypt in the 1980s", *World Development*, 19, 12, (1991), pp. 1721-1722.

⁹ Lofgren, *op. cit.*, p. 415.

¹⁰ John Waterbury, *Exposed to Innumerable Delusions: Public Enterprise and State Power in Egypt, India, Mexico, and Turkey* (Cambridge: Cambridge University Press, 1993). See chapter 6 on the ineffectiveness of public sector managers to confront reform, and chapter 9 on trade unions.

attracted to the former for obvious reasons, and attracted to the latter as a simple, expanding, and profitable sector in which to invest and trade.

In May 1991, the Egyptian government signed a standby agreement with the IMF, the conditions of which included a dramatic acceleration of economic liberalisation and privatisation. Although the government delayed the economic reform process, the same cannot be said for the liberalisation of tourism in the 1990s. A rapid liberalisation — in fact, something akin to a 'free for all' — characterised the Egyptian tourism sector during the decade, with little thought paid to the outcomes and effects of such expansion.¹¹ The social and environmental costs of too rapid a liberalisation are significant, and costs may flow from an over-emphasised service sector which, in terms of investment, may become over-subscribed. The Egyptian government is yet to produce even the most basic long-term tourism plan.

BACKGROUND: ECONOMICS AND TOURISM UNDER NASSER

At the time of the 1952 revolution, Nasser and the Free Officers did not have an economic agenda. Their preoccupation was nationalism and social development, which guided their behaviour far more than any ideological economic orientation. Economic changes were introduced as a means, not an end; nationalisation, for example, was an economic manifestation of nationalism, aimed at removing wealthy foreign powers and their political influence from Egypt. Land reform was an abolition of feudalism, and an attempt to deal with the shocking rural poverty of the time, rather than an ideologically-driven de-liberalisation of the agrarian economy. And education was pursued as much for its social impacts as for its economic ones. Viewing Nasser's policies from this perspective also reduces the conflict which some observers contend existed between Nasser's economy and the Sadat's *infitah*. Nasserism, when viewed as a stage in Egyptian political, economic and social

¹¹ Author's interview with Mr. Robert Bischert, Tourism Consultant, Associate Director, Coopers & Lybrand/Jawad Habib & Co., Bahrain, 30 June 1996.

development rather than as an end in itself, is not necessarily incompatible with *infatih*; in fact, it set many of the conditions which allowed for economic liberalisation under Sadat and Mubarak. For example, nationalisation led to enormous state investment in key industries, particularly heavy manufacturing. Education expanded rapidly, carrying with it economic and social benefits. And the social benefits gained from a stronger state apparatus were substantial, even if the inefficiencies of the state were not sustainable over the long term.

Nasser's economic programme did contain some serious flaws, and suffered from other, external pressures, so that by the 1970s some form of economic reform was necessary. Nasser subtly recognised the need for some reform, and its political benefits. The earliest sign of Nasser's willingness to allow some liberalisation was in 1964, when he permitted greater economic freedom for some businessmen and contractors, most notable of which was Uthman Ahmed Uthman.¹² In the tourism sector, there had always been an element of comparative economic openness. For example in 1958, when the Nile Hilton hotel was established in Cairo, it was government-owned but privately managed. Later in his presidency, he initiated some "cautious liberalization measures (such as those announced in the March 30 Programme of 1968) and ... gradual relaxation of import controls."¹³

The need for reform had become evident in the mid-1960s, when Egypt began to suffer from a foreign exchange shortage, resulting largely from the flawed structure of ISI policies and state-led development.¹⁴ Large imports of heavy machinery and capital, while supposed to have led to the export of value-added secondary products, in fact worsened Egypt's balance of payments and foreign currency reserves, since the products imported were either inefficiently utilised or went into the production of non-exportable goods. By this time state capitalism had

¹² Clement Henry Moore, "Money and Power: The Dilemma of the Egyptian *Infatih*", *Middle East Journal*, 40, 4, (Autumn 1986), p. 636.

¹³ Robert Springborg, "Egypt", in Tim Niblock & Emma Murphy (eds.), *Economic and Political Liberalization in the Middle East* (London: British Academic Press, 1993), p. 146.

¹⁴ See Alan Richards & John Waterbury, *A Political Economy of the Middle East: State, Class, and Economic Development* (Boulder: Westview Press, 1990), chapter 9.

created a state bourgeoisie, with private sector friends, both of which began to seek greater economic opportunities, although the former, being firmly entrenched in the Nasserist system, were less keen than the latter on changes which would substantially alter the structure of the economy.

Faced with the option of either increasing taxation of the middle classes, or moving Egypt closer to the international economic system, Nasser tried to delay making a choice for as long as possible. He made some concessions to the middle classes in the form of the small liberalisation measures of 1968, aimed in part at purchasing political support, but otherwise delayed abandoning his economic tenets until his death in 1970. Between the mid-1960s and the promulgation of *infitah*, and especially after the 1967 Arab-Israeli war, Egypt's economic growth rate fell dramatically, hastening the need for economic reform.¹⁵ As well as its human and social costs, the 1967 war cut dramatically into Egypt's income from the Suez canal, foreign aid, oil extraction and production, and, not least of all, tourism.¹⁶

INFITAH AND TOURISM UNDER SADAT

The origins of the Egyptian *infitah* are found, broadly, in five main developments effecting the Egyptian economy during the 1960s and 1970s. These were:

- The economic shortcomings of state-led development (SLD) and import substitution industrialisation (ISI);
- The political changes that flowed from the social impacts of SLD and ISI;
- The economic costs of the confrontation with Israel;
- Changes in the regional and global economy; and

¹⁵ Saad Eddin Ibrahim, "Domestic Developments in Egypt", William B. Quandt (ed.), *The Middle East Ten Years After Camp David* (Washington: The Brookings Institution, 1988), pp. 23-24.

¹⁶ Amin, *op. cit.*, pp. 5-9.

- Sadat's move away from the Soviet Union toward the United States and the West.

Anwar Sadat inherited an economy structured towards a socialist model of development. The economy of Egypt had been transformed from a largely free market economy — where the public sector accounted for only 13 percent of Gross Domestic Product (GDP) in 1952¹⁷ — to a system dominated by the state and characterised by SLD and ISI which has been termed Nasserism. Nasserism retained a sizeable, but small-scale private sector, on condition that it be indigenous, politically unobtrusive, and "productive".¹⁸ Nasserism's economic aspect, therefore, was a unique blend of macro-economic socialism, small-scale capitalism, and economic nationalism in the form of the Egyptianisation of the ownership of the means of production.

Beyond a recognition that some reform of the economy was necessary, Sadat also "had a clear preference for the abolition of much of the economic edifice Nasser had created."¹⁹ It was not until after the 1973 October war, which cemented Sadat's political position and boosted his legitimacy, that he was able to risk substantial economic reform. The war increased his popularity, made it more difficult for his opponents to mount a challenge to his leadership, and lessened the extent to which he was operating in the shadow of Nasser. At around the same time, the rapid rise in oil prices was endowing the Gulf economies with enormous financial resources, which Sadat saw as an opportunity to gain foreign investment and capital. Sadat viewed Egypt's large pool of labour as an under-utilised resource, which could be employed to add value to production financed by the Gulf states.

¹⁷ Ibrahim G. Aoude, "From National Bourgeois Development to *Infitah*: Egypt 1952-1992", *Arab Studies Quarterly*, 16, 1, Winter 1994, p. 2.

¹⁸ John Waterbury, *The Egypt of Nasser and Sadat: The Political Economy of Two Regimes* (Princeton: Princeton University Press, 1988), pp. 158-188, claims that the indigenous private sector under Nasser maintained its productive output, even though "the expatriate bourgeoisie was decapitated." (p. 161).

¹⁹ Springborg in Niblock & Murphy (eds), *op.cit.*, p. 146.

However, the policy of *infitah* was more than Sadat simply ideologically distancing himself from the economics of Nasserism. To be sure, its most obvious aim was the liberalisation of import and export rules.²⁰ Furthermore, however, *infitah* was a method by which Sadat could boost the groups and individuals which he favoured or relied upon, allowing them to develop their economic independence and, within strict limits, voice their political concerns and wishes.²¹ And finally, as mentioned earlier, was the international dimension of *infitah*, which generated greater support in the United States for Egypt and its president. It was, in this respect, part of Sadat's diplomacy as well, aimed reorientating Egypt and the Egyptian government's ideological foundations away from the Soviet Union and towards the Western camp.

Law 43 of 1974, aimed at attracting foreign investment, especially from the Arab Gulf states, was the legislative cornerstone of Sadat's *infitah*, replacing the "stillborn"²² Law 65 of 1971. Law 43 concentrated largely on the redefinition of what was the 'private' sector. Egyptian public sector investment, when coupled with foreign capital, fell within the purview of the law and thus enabled many of the laws and regulations which typically applied to the public sector to be by-passed. Priority under the law was given to economic activities which either substituted imports for Egyptian-made products, or which would earn foreign income. The law also opened up a wider variety of sectors to foreign investment, and was particularly important for the banking sector.

Sadat's economic logic as expressed in the policy of *infitah* was not without its benefits, however the continual protestations of the public sector against any substantial changes to its position and role, coupled with Sadat's concern about general workers' dissent to economic restructuring, ensured that Law 43, and its successor Law 32 of 1977, made only cosmetic changes to the structure of the

²⁰ *Ibid.*, p. 147.

²¹ Robert Springborg, *Mubarak's Egypt: Fragmentation of the Political Order* (Boulder: Westview Press, 1989), pp. 33-34.

²² The term is John Waterbury's in *op. cit.*, p. 130.

Egyptian economy. *Infitah* lacked financial and economic effectiveness above all because it was managed by Egyptian technocrats, who were as isolated from the political problems of reform as were the politically-disinterested IMF officials on whom Sadat relied for advice on liberalisation. When Sadat approached the IMF for a loan in 1976, for example, they required in exchange the removal of subsidies on basic commodities. The price rises which resulted were quickly retracted by Sadat after the infamous riots of January 1977; the political concerns of reform thus proving dominant over its economic logic.²³ The Egyptian Trade Union Federation, while happy to see foreign investment if it led to the creation of employment, fiercely opposed any restructuring which would impinge upon its power or that of the public sector.²⁴ *Infitah*, for these reasons, was toned down; Sadat was "faced with an array of organized 'losers', and lacking a coherent 'winners coalition'".²⁵

Between 1974 and 1978, and even more so after that time, *infitah* was characterised by gradualism, hesitation, and the lack of tangible economic results for the bulk of the population. A strictly limited number of people, the *munfatihun*,²⁶ became quite wealthy, mostly through unproductive work as agents, 'middlemen', and the like. Any controversial reforms which did occur were achieved by indirect means, so as to avoid a repeat of the 1977 riots, and were constrained by popular concerns and the power of elites residual from the Nasser era.

However as mentioned, the aims of *infitah* went further than economics. Sadat, who was renowned for his lack of interest in matters of economics, made *infitah*, above all, an aspect of Egypt's turn to the West. As William Burns points out, the "summer of 1974 was an exhilarating time for Egyptians",²⁷ as a result of several developments; Egypt's strong performance in the 1973 Arab-Israeli war, the

²³ Springborg in Niblock & Murphy (eds), *op. cit.*, p. 148.

²⁴ Daniel Brumberg, "Survival Strategies vs. Democratic Bargains: The Politics of Economic Reform in Contemporary Egypt", in Henri J. Barkey (ed.), *The Politics of Economic Reform in the Middle East* (New York: St. Martin's Press, 1992), pp. 80-81.

²⁵ *Ibid.*, p. 81.

²⁶ It is difficult to translate this word. Strictly, it means 'liberals', but in the sense of Egypt and the 1970s *infitah* it implies those who profiteered from *infitah*.

²⁷ Burns, *op. cit.*, p. 181.

possibility of closer political, trade and investment ties with the US, and an increasing chance of a Middle East peace agreement. In turn, the United States embraced Egypt as a *de facto* ally and emphasised the need for economic liberalisation and structural adjustment, often linking parts of the enormous aid donated to Egypt to progress with economic reform. The constraint on Washington's pressure on Egypt, of course, has been the over-riding US concern for Egyptian political stability. Above all, the link between Egypt's relationship with the US and the internal policy of *infatih* is not a direct one but is "mutually re-inforcing", as Hinnebusch has noted.²⁸ Internal changes contributed to the creation of ties with the US, which then strengthened liberalisation, which then improved Egyptian-US ties, and so forth. Hence in the 1980s, when the US attempted to pressure Husni Mubarak into making substantial strides in liberalisation, it was influential but largely unsuccessful, until it co-ordinated its efforts with other external actors and overcame remaining domestic obstacles in Egypt.

The Egyptian economy performed well under Sadat, in particular between 1974 and his assassination in 1981, but very little of this economic boom is attributable to *infatih*. The economic results of *infatih* were to boost imports, mostly of consumer goods and luxury items for which there had been an unsatisfied demand prior to 1974, and to accelerate the economy as a result. The economic acceleration benefited the *munfatihun* and, indirectly, many other Egyptians, but it came at a price: the balance of payments deficit worsened in the mid-1970s, inflation of 30 percent or more was a cost to the government in the form of higher wages for the enormous public sector, and economic volatility and change deterred many of the foreign investors which the *infatih* policy was attempting to attract.²⁹

The controversial results of *infatih*, such as the food riots of 1977, highlighted the political linkages to economic liberalisation. Sadat was unable or

²⁸ On this linkage, see Raymond Hinnebusch, *Egyptian Politics under Sadat: The Post-Populist Development of an Authoritarian-Modernizing State* (Cambridge: Cambridge University Press, 1985), pp. 59-60.

²⁹ Brumberg in Barkey (ed), *op. cit.*, pp. 83-84.

Table 4.1: Economic 'Boom' In A Rentier Economy — Egypt, 1974-1981

Year	Oil (US\$m)	Change (%)	Remittances (US\$m)*	Change (%)	Suez (US\$m)	Change (%)	Tourism (US\$m)	Change (%)
1975	289	+54	366	+94	85	-	332	+25
1976	644	+123	755	+106	311	+266	464	+40
1977	720	+12	897	+19	428	+38	728	+57
1978	802	+11	1761	+96	514	+20	702	-4
1979	1880	+134	2214	+26	589	+15	601	-14
1980-81	3013	+60	2625	+19	780	+32	712	+18
1981-82	3329	+10	2082	-21	909	+17	393	-45

*The real figures are probably much higher, as a large proportion of remittances entered Egypt through unofficial channels or were understated.

Source: Various reports and yearbooks compiled and presented in Amin, *Egypt's Economic Predicament*, p. 47 (Table 3.4), p. 54 (Table 3.7), p. 58 (Table 3.10), p. 59 (Table 3.12).

unwilling to cushion economic reforms with political concessions and was seen by broad sections of Egyptian society as being in collusion with the *munfatihun*, although Sadat proved incapable of colluding with anyone. For example, expectations in the late 1970s that he would form a coalition with the *Wafd* party, which represented groups most likely to support and benefit from *infitah*, never eventuated, largely because the *Wafd* saw *infitah* as 'crony' capitalism which mostly benefited the public sector elites, linked in with the private sector.³⁰ Sadat's *infitah* pleased few people within Egypt, even if it sent a somewhat more positive message to the outside world.

The economic growth rate during 1974-1984 — an average 9 percent per annum³¹ — was the result of rapid increases in foreign aid, Suez Canal income, tourism receipts, workers' remittances, and petroleum exports (Table 4.1). By the end of Sadat's presidency, Egypt was a rentier economy, exporting few of the highly transformed manufactures that had been the goal of *infitah*. A rentier economy — one which survives on economic 'rents' rather than the production of primary or secondary goods³² — is not always a poor economy, but it requires an ability to change dramatically and effectively whenever rentier income changes dramatically.³³ When rents plummeted in the mid-1980s, Egypt went into a recession because of its limited ability to adapt to such a dramatic economic change.

³⁰ *Ibid.*, p. 85.

³¹ Heba Handoussa, "Crisis and Challenge: Prospects for the 1990s", in Heba Handoussa & Gillian Potter (eds.), *Employment and Structural Adjustment: Egypt in the 1990s* (Cairo: American University in Cairo Press with the International Labour Organisation, 1991), p. 3.

³² On the nature and structure of rentier economies in the Middle East, see Hazem Beblawi, "The Rentier State in the Arab World", in Giacomo Luciani (ed.) *The Arab State* (London: Routledge, 1990), pp. 85-98.

³³ Part of the ability of rentier states to economically survive, by changing in times of rent fluctuation, is based on the state establishing and retaining an extraction (taxation) ability, and on it avoiding the temptation of becoming an allocator of rent resources. On this idea, see Kiren Aziz Chaudhry, "The Price of Wealth: Business and State in Labor Remittance and Oil Economies", *International Organization*, 43, 1, (Winter 1989), pp. 101-145.

Tourism under Sadat

The term *infatih* is something of a misnomer, as it implies that there was little or no economic openness in Egypt prior to its promulgation, which is not the case. Egypt was not aloof from the world economy before *infatih*, with tourism playing an important role in Egypt's links with the outside world. Tourism had long been a source of economic activity, starting with Thomas Cook's entry into Egypt in the nineteenth century, and continuing throughout the presidency of Nasser when tourism assets such as hotels were part-privatised. The Egyptian government, through the Egyptian General Organisation of Tourism and Hotels (EGOTH), owned the land and infrastructure of the larger hotels, but leased the rights to manage the hotels to international firms such as Hilton, Meridien, and Sheraton.³⁴ Smaller accommodation facilities, especially the guest houses and apartments popular with Arab and long-term visitors to Egypt, were usually a private sector activity: in most cases individuals would rent their homes, or a room in their homes, to visitors as a means of supplementing low salaries.³⁵ Only into the 1990s has this policy been changed, with the sale of tourism assets to foreign firms and investors.³⁶ Egypt's air and sea transport rules under Nasser were also strict, but allowed for some foreign activity. Airlines and shipping lines operated quite freely to and from Egypt, but faced restrictions on other activities such as charter services.

The tourism sector under Nasser was, however, quite small, and suffered greatly from the international instability created by the Arab-Israeli conflict.³⁷ The 1967 War had a particularly serious effect on tourism to Egypt; total tourist numbers

³⁴ Khalid Ikram, *Egypt: Economic Management in a Period of Transition* (Baltimore: The Johns Hopkins University Press for the World Bank, 1980), p. 296.

³⁵ Ikram, *op. cit.*, p. 296. The numbers are unrecorded and difficult to guess; Ikram suggests about 30,000 in Cairo and Alexandria in the high season in the late 1970s, probably the figure was higher under Nasser when housing was more freely available in the large cities and demand was lower, although tourism numbers were smaller then as well.

³⁶ Josh Martin, "One Step at a Time", *The Middle East*, September 1993, pp. 32-34.

³⁷ Amin, *op. cit.*

fell by 40.6 percent, from 579,000 to 344,000,³⁸ worst of which was a fall in US visitors of 57.5 percent.³⁹ This volatility was also a characteristic of Egyptian tourism throughout the 1970s, 1980s and 1990s (albeit to a less dramatic degree), and reflects the highly discretionary nature of tourism.

However under Sadat, there was more liberalisation of the tourism sector than under his predecessor, but it was still limited in nature. Sadat's first step in the liberalisation of tourism was Law 1 of 1973, which gave the overall management of tourism to the Ministry of Tourism and gave the Ministry greater freedom in setting rules and regulations for the sector. The Ministry was allowed to set the standards for hotels, and determine whether an establishment qualified for assistance under Law 1. Such assistance included exemptions from taxation for up to five years, and exemptions from duties on the importation of essential products and technology.⁴⁰ Law 2 of the same year gave further powers to the Ministry of Tourism, including the authority to designate certain areas for tourism development or expansion. This law made the Ministry remarkably powerful, since all other actors — relevant ministries, businesspeople, and other actors — had to comply with the wishes of the Ministry of Tourism if they wanted to continue with, or to expand, their activities in the tourism sector.⁴¹ Further changes influencing tourism occurred in 1972 and 1973, with the establishment of a devalued exchange rate to attract foreign tourists, and with duty free shops given permission to sell goods to tourists in foreign currencies rather than only in Egyptian pounds.⁴²

Laws 1 and 2 of 1973 meant that, when *infatih* was introduced, most of the incentives under Law 43 of 1974 already existed for investment in the tourism sector. The taxation exemptions of Law 43, for example, were virtually the same as for Law 1. Law 43 did introduce some further incentives, however, in the form of

³⁸ Percent figures calculated from data in Ikram, *op. cit.*, p. 293 (Table 14-5).

³⁹ *Ibid.*, p. 293 (Table 14-5).

⁴⁰ *Ibid.*, pp. 301-302.

⁴¹ *Ibid.*, p. 302.

⁴² Roberto Aliboni et al, *Egypt's Economic Potential* (London: Croom Helm, 1984), pp. 26-27.

guaranteed property rights on Egyptian land and capital for foreign firms and individuals, and perhaps most important, the ability of investors in Egypt to repatriate profits overseas or to freely withdraw their investment.⁴³ Law 43 was changed in 1977 to allow Egyptian investors the same rights as those enjoyed by foreign investors and businesses.

In 1975, the structure of the government side of tourism was reorganised. Rather than calling on the Ministry of Tourism to attempt to co-ordinate between the various ministries, authorities, and other public sector entities involved in the tourism sector, the High Council for Tourism was formed. The Council, which in 1976 was replaced by the High Council for Tourism and Civil Aviation, was designed to undertake all the major government-centred tourism functions in Egypt: the formulation of policy and regulations on tourism and transport, the development of the sector, crisis management, planning, and co-ordination between member-groups. In effect, it did less than this, but was nonetheless important as an advisor to the Sadat government.⁴⁴

The effects of Sadat's liberalisation measures in the tourism sector were several. Foreign investment in the tourism sector increased substantially in the mid-1970s; a few were purely foreign, private sector owned and operated, but the majority were partnerships between foreign capital and EGOTH, with funds raised both from foreign banks and from foreign non-bank sources.⁴⁵ International firms with an interest in the tourism industry, such as American Express, established branches and operations in Egypt at around this time, although the state-owned Misr Travel dominated the in-bound tourism market during the 1970s and 1980s. These investments and new operations were doubtless influenced by the government's incentives, although this is difficult to measure quantitatively since, at the same time, tourist numbers and the amounts they were spending increased markedly. A

⁴³ Ikram, *op. cit.*, p. 302.

⁴⁴ *Ibid.*, p. 300.

⁴⁵ *Ibid.*, p. 296-297.

greater number of European and Arab tourists began arriving in Egypt in 1974, with an increase in American tourists occurring the next year. These increases filled existing hotels almost to capacity, which probably also had an effect on the attractiveness of investment or other involvement in Egyptian tourism.

The rise in tourism numbers and income, occurring as it did around the same time as *infitah*, is indicative of both an influence on liberalisation from tourism and vice versa. The growth in tourism served to reinforce the economic boom of the late 1970s mentioned earlier, including the changes implemented under *infitah*, and to facilitate the success of *infitah* entrepreneurs in tourism and, in turn, in other sectors of the economy. Economic liberalisation also supported tourism, by providing a boost in investment in new enterprises, from within Egypt and abroad, and by modernising Egypt's tourism sector and making it more attractive to potential visitors. The chief political beneficiary of all this was the Egyptian government and its leadership. In only a few years, Sadat transformed the Egyptian political economy, introducing a new group of businesspeople to the economy, many of whom were grateful to the regime for the opportunities that were made available to them. The accompanying economic boom in the late 1970s served further to cement Sadat's political position, with *infitah* serving as his mark, but to a lesser extent, with tourism development also a feature of his period in power. The unpopularity of some aspects (and some beneficiaries) of *infitah* aside, the economic conditions of the 1970s were an important factor in Sadat's support base.

LIBERALISATION AND TOURISM UNDER MUBARAK

The assassination of Sadat in October 1981 brought Hosni Mubarak to power, who immediately faced dire problems of political instability and threats to his regime. Tourism was probably the last thing on his mind. However the entire first decade of Mubarak's rule — from his assumption of power until the IMF agreement

in 1991 — was characterised by inactivity on economic liberalisation, and the lack of any vision for the tourism sector. To be sure, some moves were made during this period toward further economic liberalisation, and in particular in the expansion and development of tourism, but they were limited in scope and effect and appeared to lack an overall strategic plan. Mubarak faced the problem, even more so than Sadat had, of violent fluctuations in tourism (see Table 4.2). This unpredictability deterred many potential investors, made government planning for future tourism income and requirements extremely difficult, and had a broader impact on employment, income, and other aspects of the Egyptian economy.

Liberalisation and Tourism in the 1980s

The economic liberalisation in the 1980s is generally seen by scholars and others as having been idle, or "dilatory".⁴⁶ This assessment is largely accurate, although some reforms were undertaken by Mubarak during the decade, and importantly, tourism was one of the few areas where substantial reforms were undertaken in the 1980s, especially under the pro-liberalisation Minister of Tourism Fouad Sultan.

Mubarak outlined his economic plans and agenda in a speech to the People's Assembly in November 1981, where he stated that *infitah*, in the broad sense of economic liberalisation, would continue under his presidency, but that some aspects would be changed or abandoned. He made special mention of the plight of poor Egyptians, and his aim of countering "the conspicuous consumption and profiteering of the 'fat cats' of the country".⁴⁷ Thus the adjective *intaji* ("productive") was added

⁴⁶ Richards, *op. cit.*, pp. 1721-1730. Denis J. Sullivan, "The Political Economy of Reform in Egypt", *International Journal of Middle East Studies*, 22, (1990), pp. 317-334 uses the term 'gradualism' (p. 320) to describe reform in the 1980s.

⁴⁷ Derek Hopwood, *Egypt: Politics and Society 1945-1990*, 3rd Ed. (London: HarperCollins Academic, 1991), p. 184.

Table 4.2: The Fluctuation Of Tourism In The 1980s

Year	Arab States	OECD States	Socialist States	Others*	Total ('000s)	Year	Income (US\$m)**
1982	618	677	23	105	1,423	1980/81	712
1983	599	752	25	122	1,497	1981/82	393
1984	596	823	27	114	1,560	1982/83	304
1985	564	818	28	109	1,518	1983/84	288
1986	528	613	40	130	1,311	1984/85	410
1987	616	932	43	204	1,795	1985/86	315
1987/88	638.7	1102.1	51.3	177.2	1969.3	1986/87	380
1988/89	940.3	1274.6	50.0	238.5	2,503.4	1987/88	886
1989/90	1132.9	1215.1	58.0	194.2	2,600.2	1988/89	901
1990/91	1082.3	988.1	42.5	101.4	2,214.3	1989/90	1067
1991/92	1102.9	1866.0	73.7	164.3	3,206.9	1990/91	924

* Numbers may not add up exactly due to rounding.

** This number is probably understated, as it includes only income passing through official sources; money changed illegally or unofficially is probably several times higher. The official figures are provided for their value in indicating trends in income.

Source: Tourism numbers from Europa Publications, *The Middle East and North Africa* (London: Europa Publications, various years); figures on revenue from Amin, *Egypt's Economic Predicament*, p. 45 (Table 3.3) and p. 59 (Table 3.12).

to *infitah*.⁴⁸ Mubarak came under pressure from international aid groups, and from within Egypt, to accelerate reform, but faced a plethora of problems in restructuring the economy and reducing Egypt's reliance on rents. He had inherited from Sadat a foreign policy and orientation which, on the positive side, was closely linked with the United States and receiving large amounts of aid from the superpower. The problem for Mubarak was to restore relations with the Arab states, which had abandoned Egypt after the 1978 Camp David Accords.⁴⁹ Although Mubarak ultimately managed to return Egypt to the Arab fold, throughout much of the 1980s it suffered from growing economic problems, which developed into a recession in 1984-85. A loss of rents triggered the recession,⁵⁰ but the structural economic weaknesses at the time worsened the situation substantially, in particular "the twin gaps between investment and domestic savings and between imports and exports."⁵¹

The key problem throughout the 1980s was that, despite Mubarak and his government identifying the macro-economic problems bedevilling Egypt, there was a lack of political will to amend these problems. Some reforms did occur, beginning in 1987, when Mubarak attempted to address the budget and current account deficits, and further open the economy to foreign trade and investment. But negotiations with the IMF, which began in 1987, were continually delayed by Mubarak's concerns about a repeat of the riots and unrest of 1977. Meanwhile, Egypt's economic problems worsened. Debt increased to almost US\$50 billion, imports rose, the budget deficit remained high, and the exchange rate remained fixed and overvalued.⁵² Increased US and IMF pressure in 1989 and 1990 led ultimately to the

⁴⁸ John Waterbury, "The 'Soft State' and the Open Door: Egypt's Experience with Economic Liberalization, 1974-1984", *Comparative Politics*, (October 1985), pp. 72-73, quoted in James A. Bill & Robert Springborg, *Politics in the Middle East*, 3rd Ed. (Glenview: Scott, Foresman/Little Brown, 1990), p. 426.

⁴⁹ Ali E. Hillal Dessouki, "Egyptian Foreign Policy since Camp David", in Quandt, *op. cit.*, pp. 94-110.

⁵⁰ Handoussa in Handoussa & Potter (eds), *op. cit.*, p. 4.

⁵¹ Richards, *op. cit.*, p. 1722.

⁵² David Seddon, "The Politics of Adjustment: Egypt and the IMF, 1987-1990", *Review of African Political Economy*, 47, (Spring 1990), pp. 95-104.

1991 agreement with the IMF, and the decision to begin more substantial reforms.⁵³

The reasons for Mubarak's lack of commitment to reform during the 1980s are several. Most obvious was the fear of popular unrest, and its political manifestations, if reform was undertaken too rapidly or abruptly. A more convincing explanation links the government's concern about popular unrest with the combination of vested interests and groups within Egypt which opposed reform and a lack of co-ordination by international lending groups.⁵⁴ The groups and social forces opposing liberalisation in the 1980s included bureaucrats, managers of state-owned enterprises, and some government ministers, especially those in inefficient, subsidised or threatened sectors such as heavy manufacturing. Further, many members of the private sector who might otherwise have supported liberalisation, instead had a vested interest in the status quo because of financial links to the public sector or public firms, or because of a reliance on government subsidies.⁵⁵ At the same time, the United States and other international bodies such as the World Bank, the IMF, and Paris Club did not co-ordinate their efforts at pressuring the Mubarak government. The United States, wary of Cold War politics at the time, placed the stability of Egypt above all else, although some pressure was applied by Washington through the IMF.

In the tourism sector during the 1980s, there was more reform than in the broader economy, but it remained modest compared with that which came in the 1990s. Tourism retained its importance as an aspect of economic development, and was strongly supported by the government despite the attempts at economic diversification. Tourism was viewed as a potent panacea for the major economic problems in the 1980s, especially high unemployment and poor trade figures. And from the mid-1980s onwards, after the appointment of Fouad Sultan as the Minister

⁵³ *Ibid.*, p. 98-103; see also Tim Niblock, "International and Domestic Factors in the Economic Liberalization Process in Arab Countries", in Niblock & Murphy, *op. cit.*, especially pp. 58-71.

⁵⁴ This is the argument, with few differences, can be found in Lofgren, *op. cit.*; Richards, *op. cit.*; and Sullivan, *op. cit.*

⁵⁵ Richards, *op. cit.*, p. 1727.

of Tourism, the liberalisation and expansion of tourism was aggressively encouraged by the new minister. The main challenges facing tourism development at the time were the need for more general development of facilities and related infrastructure, and the fluctuations in tourism numbers and income (see Table 4.2), the latter a result largely of international instability.

The fluctuations in tourism can be largely attributed to the instability and conflict in the Middle East during the 1980s. Tourists have short memories — hence the rapid recovery of tourism after a major incident of instability — but the short-term effects of events in and around Egypt were severe. Events with a particular impact on tourism included the assassination of Anwar Sadat in 1981, the Israeli invasion of Lebanon in 1982, the hijacking of the Achille Lauro cruiseship in 1985, the US bombing of Libya in 1986, and riots in Egypt the same year. The most disastrous event, however, was undoubtedly the 1990-91 Gulf War. The cancellation rate for tours was around 70 percent in late 1990, and hotel occupancy rates fell to between 35 and 70 percent (compared with 80-90 percent a year earlier).⁵⁶ The Gulf War is estimated to have cost Egypt about half of its tourism income for the year 1990/91, when all costs to hotels, Egyptair, shops and traders, travel agencies, and tour companies are taken into account.⁵⁷ The Egyptian government assisted the industry during 1990 and 1991 with reduced-interest loans, and a deferment of some taxes and insurance premiums.⁵⁸ Despite this support, many tourism-related firms struggled to survive in the early 1990s, and just as tourism began to recover from the Gulf War in 1991 and 1992, Islamist attacks on tourists increased markedly.

Despite the paucity of substantial macro-economic liberalisation during the 1980s, a number of changes and reforms did occur. The Mubarak government realised the economic value of tourism to Egypt, and the comparative advantage

⁵⁶ Simon Brindle, "Enticing the Tourists Back", *The Middle East*, May 1991, p. 36.

⁵⁷ Losses include about US\$625 million in the hotel sector, US\$275 million in shops catering to tourists (especially antique shops and the like), US\$200 million to travel agencies and tour companies, and US\$100 million to Egyptair. See *Ibid.*, p. 36.

⁵⁸ *Ibid.*, p. 36.

enjoyed in it, and therefore placed considerable emphasis on expanding and developing the sector. In the early 1980s, investment continued in the tourism sector under Law 43, despite the initial fall in tourist numbers in 1981 after the assassination of Sadat. Investors became involved in tourism outside of the traditional cultural and archaeological arena, into beach and coastal resorts, especially on the Red Sea.⁵⁹ Broader problems with the expansion of tourism began to be addressed in the early 1980s.⁶⁰ The problems included poor infrastructure in Cairo, a lack of skilled labour, inadequate transport links between regions and cities, and problems of efficiency in areas related to tourism, such as construction.

The appointment of Fouad Sultan as Minister of Tourism was significant for the sector, not least because of his pro-liberalisation approach to tourism and his attempts at expanding the sector. Sultan began by liberalising airline rules, allowing charter services to operate more freely, and directly to regional tourism sites such as the resorts of the Red Sea.⁶¹ More significant was his decision to part-privatise poorly performing state-owned hotels, by allowing foreign firms to manage and operate these establishments. Under 25 year contracts, the involvement and managerial autonomy of major foreign hotel operators (such as Hilton, Meridien, Marriott, and the like) was increased. Such firms typically take a proportion of profit or turnover, and are largely autonomous but are required to operate under specific rules for the hotel sector. For example, the government set minimum and maximum prices for each hotel category, set regulations on the use of Egyptian labour, and required the firm to adhere to other broader regulations such as those on imports.⁶² Beginning in 1982, a massive privatisation programme was planned for the tourism sector, and some other sectors, to free the government of unprofitable enterprises and to re-invigorate the economy through a further expansion of the private sector. While

⁵⁹ Aliboni et al, *op. cit.*, p. 116.

⁶⁰ See Alan Mackie, "Egypt Slowly Improves its Amenities", *Middle East Economic Digest* (hereafter, *MEED*), Special Report on 'Business Travel', June 1982, p. 32.

⁶¹ Brindle, *op. cit.*, p. 36.

⁶² Author's interview with Mr Paul Malcom, Director of Marketing, Marriott Hotel, Zamalek, Cairo, 16 May 1996.

this proposal was not acted upon, even after being re-proposed in 1985 and accepted by parliament in 1987, it did signal a gradual shift in government thinking towards the support of the private sector.⁶³

Towards the late 1980s, as a result of Sultan's efforts at private sector development of tourism, foreign investment increased markedly.⁶⁴ In particular, areas outside of the traditional Cairo-Luxor-Aswan itinerary were developed, as Egypt attempted to expand its capacity to cater for resort tourism. Many new projects, especially resorts, were established in areas such as Hurghada, Dahab, Taba, and Marsa Mutrah.⁶⁵ Public-sector firms also expanded their investment in tourism; for example Egyptair, the state-owned airline, undertook a massive expansion of its fleet in the late 1980s, buying new Boeing and Airbus aircraft valued at about US\$600 million,⁶⁶ using funds raised internationally, and privately, by the New York firm Irving Trust Company.⁶⁷

The 1980s can be characterised as a period more of tourism development than of tourism liberalisation. The consolidation of the reforms initiated by Sadat was a major feature of the period. Tourism became a salient aspect of the Egyptian government's economic development agenda, and was made a priority in the liberalisation agenda as a result, but many changes — apart from small reforms in aviation and hotel management — were undertaken under laws enacted by Sadat. In comparison with the early years of *infitah*, there were far fewer reform 'milestones' in the 1980s.

⁶³ Nazih Ayubi, "Etatism versus Privatization: The Case of the Public Sector in Egypt", *International Review of Administrative Sciences*, 56, (1990), p. 98.

⁶⁴ "Tourism: Investors Stampede to Get In", *MEED*, Special Report on 'Egypt', 8 June 1990, p. 18. See also Table 4.5.

⁶⁵ *Ibid.*, p. 18.

⁶⁶ Robert Bailey, "The Future for Middle East Airlines", *MEED*, 13 January 1989, p. 10.

⁶⁷ Robert Bailey, "Financing Fleet Expansion", *MEED*, 13 January 1989, p. 7.

Liberalisation and Tourism in the 1990s

In the late 1980s, Egypt's economic problems had worsened. In the four years leading up to 1991, Egypt and the IMF struggled to reach an agreement on the remedy for Egypt's economic ills; the IMF pushing for major structural reforms, and the Mubarak government seeking a less abrupt alternative to the IMF's medicine.⁶⁸ Finally, on 17 May 1991, Egypt signed a standby agreement with the IMF, followed by a structural adjustment loan with the World Bank in October 1991. The IMF agreement included as its backbone the most substantial reforms ever undertaken to the Egyptian economy. The over-riding concern of the agreement was macro-economic stabilisation and reform, including de-monopolisation, trade liberalisation, and floating of the Egyptian currency. It also included a requirement that Egypt commence large-scale privatisation.⁶⁹ Despite the strength of the private sector in tourism by the early 1990s, the relative profitability of the tourism sector and its attractiveness to investors placed the tourism sector in a prominent position on the privatisation agenda.

How was it that Egypt agreed to the 1991 agreement with the IMF, despite the forces and actors within Egypt which had opposed, and successfully delayed, such reform for almost two decades?

Some proponents of liberalisation argue that major economic reform and liberalisation was essential for Egypt's long-term development — even its survival — and that Mubarak and his government probably realised that the status quo was simply not sustainable for much longer. Another explanation for the acceleration of liberalisation in 1991 is that a combination of pro-liberalisation forces and actors, internal and external to Egypt, were in place by 1991 and for the first time were more powerful than those opposing economic liberalisation.

⁶⁸ On the Egypt-IMF negotiations of the late 1980s and early 1990s, see Seddon in Niblock & Murphy (eds), *op. cit.*, pp. 95-104; and Niblock in Niblock & Murphy (eds), *op. cit.*, pp. 58-71.

⁶⁹ Simon Bromley & Ray Bush, "Adjustment in Egypt? The Political Economy of Reform", *Review of African Political Economy*, 60, (1994), pp. 201-213.

Internationally, the growing chorus of pro-liberalisation groups — especially the United States and USAID, the IMF, the World Bank, and the Paris Club of creditors — began to unite in their efforts to pressure the Mubarak government for economic change in the late 1980s.⁷⁰ Also, Egypt enjoyed an economic windfall as a result of the 1990-91 Gulf War, especially in the form of debt forgiveness.⁷¹ This included US and Arab debt forgiveness of about US\$14 billion, and after the 1991 agreement with the IMF, the Paris Club forgave about US\$10 billion, or half of what Egypt owed, and provided a further US\$4 billion in restructuring and grants on the remainder of Egypt's debt. The IMF agreement itself contained about US\$400 million in assistance.⁷²

The economic upturn after the Gulf War provided the government with an opportune moment to commence reform, especially as it could serve to cushion the economic pain of liberalisation. At the same time, and unlike the previous boom of 1974 to 1984, in 1990 and 1991 the Egyptian government faced a weaker domestic coalition opposing liberalisation, and a stronger force in favour of it. Many political elites now viewed reform as in their interest. The private sector bourgeoisie, while possessing limited power within the state apparatus, nonetheless was able to expand its influence in the 1980s. The government's unwillingness to introduce new taxes, rules, or charges which would strongly affect this class highlights the private sector's growing political clout. The private sector, having gained a stronger position in the economy, could draw for power on the fact that the government needed its investment, employment creation, and export income, including investment of about US\$50 billion overseas, which could be moved around and spent freely. In this respect, the private sector is, in effect, wealthier than the Egyptian government.⁷³

⁷⁰ Lofgren, *op. cit.*, p. 415.

⁷¹ *Ibid.*, pp. 411-412.

⁷² Sarah Gauch, "Speedy Reforms Urged for Egypt", *Christian Science Monitor*, 18 December 1991, p. 7.

⁷³ Raymond A. Hinnebusch, "The Politics of Economic Reform in Egypt", *Third World Quarterly*, 14, 1, (1993), p. 166.

The Privatisation of Tourism: Methods and Results

One of the most important, and certainly most controversial, aspects of the 1991 standby agreement with the IMF was the Egyptian government's decision to commence a large-scale privatisation of state-owned firms. In 1992, the Mubarak government announced that it would sell, over a five year period, the assets or government shares of 74 companies.⁷⁴ The sale was planned over three stages; 1991/92, 1992/93, and 1993/94. Among the enterprises to be sold were tourism firms and assets, including in the first stage the assets of several hotels and Nile tourism boats, in the second stage the assets of hotels and shares in tourism-related firms, and in the third stage hotels and a number of transport companies.⁷⁵

A Minister of Public Enterprise was given overall responsibility for the oversight of the process, relying in large part on the technical services of the Public Enterprise Office (PEO) to implement the privatisation programme. The ultimate authority to determine exactly what will, or will not, be done under the privatisation programme was to rest with the Prime Minister. An assembly of holding companies, under which the companies to be sold were held by the government, was chaired by the Minister of Public Enterprise. Of these holding companies the Housing, Tourism and Cinema Holding Company was given responsibility for tourism assets awaiting privatisation, and also some related assets in the entertainment and leisure sector.⁷⁶

⁷⁴ American Chamber of Commerce in Egypt, *Privatization in Egypt: Problems and Recommendations* (Cairo: American Chamber of Commerce in Egypt, n.d.), pp. 3-6.

⁷⁵ Arab Republic of Egypt Public Enterprise Office, *General Procedures and Guidelines for the Government's Programs of Privatization, Restructuring and Reward System* (Cairo: Government of Egypt & Public Enterprise Office, 14 February 1993), pp. 51-54

⁷⁶ The privatisation procedure (also see Figure 4A) commences with the Minister of Public Enterprise, who approves a property or firm for sale. A privatisation team is then appointed by the Minister and the holding company; the team then works with the PEO and with consultants to prepare the firm for privatisation and to produce a plan for the sale. The preparation of documents for the privatisation, and the marketing of the sale, is performed by the consultants and the holding company respectively, with the Minister, holding company, purchaser, and often other groups all involved in the negotiation and execution of the sale. After the sale, the Minister announces the privatisation, the consultants put together a final report and, finally, the buyer is required to have the property or firm fully and externally audited. This process is laid out in Chart 4-A. Author's interview with Mr M. Bakir, Head and Chair, Housing, Tourism & Cinema Holding Company, Cairo, 15 May 1996; Author's interview with Dr. Ibrahim Abdul Aziz Hegazy, Assistant Professor of Marketing and International Business, American University in Cairo, Cairo, 12 May 1996; and PEO, *Government of*

The majority of its holdings, which included land, hotel and accommodation infrastructure, entertainment facilities, and some stock, were worth around 3 billion Egyptian pounds in 1996.⁷⁷

In the years immediately following the enunciation of the privatisation programme, the Egyptian government did not abide by its original plan, and delayed many aspects of its economic reform package, including privatisation. Ostensibly privatisation was delayed while macro-economic changes were first undertaken, and then because of administrative and procedural problems.⁷⁸ This does account in part for the delay, since during the years 1992 to 1994 a number of major macroeconomic reforms did take place, including an elimination of many subsidies, currency liberalisation, and changes to banking and interest rates.⁷⁹ However, the over-riding reason for the delay was the political concerns of the government. The dismantling of subsidies, government controls, and the like created some unrest in the early 1990s, and the Egyptian government was fearful that political unrest, and especially increased support for Islamist groups, would result from the job losses associated with privatisation.⁸⁰ Many of the privatisations of the early and mid-1990s were undertaken by local governments, or were partial sales of a minority of stocks rather than a complete transfer of ownership.⁸¹

To address the concerns of labour with job losses in the privatisation programme, the Egyptian government offered a lump-sum payment to men over 50, and women over 45, who were employed in the public sector for 20 or more years.⁸²

Egypt Privatisation Program (Cairo: PEO, February 1996), n.p.

⁷⁷ Author's interview with Mr M. Bakir, Head and Chair, Housing, Tourism & Cinema Holding Company, Cairo, 15 May 1996.

⁷⁸ Author's interview with Mr Muhammad Shirazi, Senior Officer, International Public Relations Department, Egyptian Ministry of Tourism, Cairo, 6 May 1996.

⁷⁹ Sarah Gauch, "Egypt's Slow Privatization Frustrates Businesses", *Christian Science Monitor*, 25 November 1992, p. 9.

⁸⁰ Sarah Gouch, "Egypt Prepares to Privatize", *Christian Science Monitor*, 4 May 1992, p. 7.

⁸¹ Economist Intelligence Unit, Business Middle East, quoted in "Egypt: Politics Stalls Bank Sell-Offs", *Reuters*, 28 June 1995, Article Reference 000668552177.

⁸² Mark Huband in the *Financial Times*, 13 May 1997, p. 10, quoted in "Egypt: Privatisation — Handover Needs Some Juggling", *Reuters*, 13 May 1997, Article Reference 001027623407.

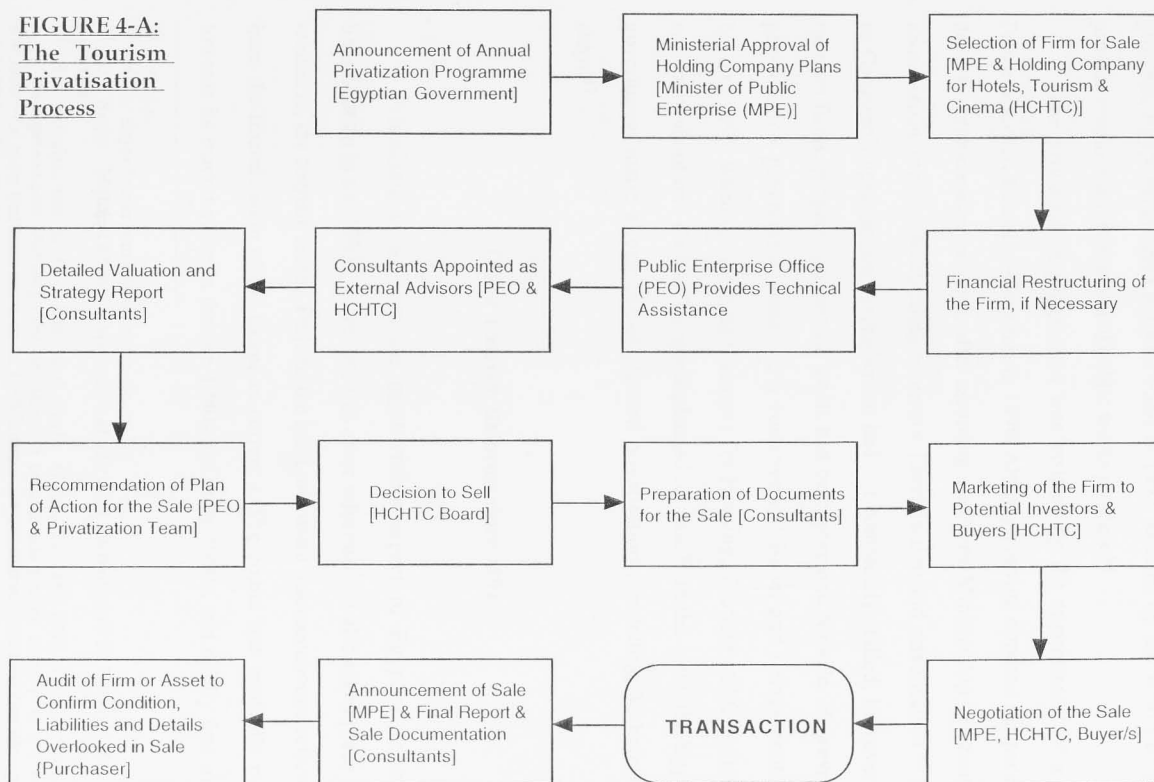
Table 4.3: Tourism Assets Identified For Sale, 1996-98*

Name Of Firm & Assets	Grade	Number Of Rooms
<i>Egyptian Hotels Company</i>		
14 Hotels	2 5-star	425
	5 4-star	557
	7 3-star	903
		<u>1885</u>
<i>EGOTH</i>		
6 Hotels	3 5-star	1148
	2 4-star	360
	1 3-star	89
4 Ships	All 5-star	364
		<u>1961</u>
<i>Grand Hotels of Egypt</i>		
3 Hotels	1 4-star	203
	2 unrated	312
		<u>515</u>
<i>Misr Hotels</i>		
4 Hotels & Resorts	1 5-star	460
	3 4-star	516
		<u>976</u>
<i>Misr Tourism</i>		
1 Hotel	1 3-star	96
5 Ships	All 5-star	305
		<u>401</u>
28 HOTELS & 9 SHIPS		<u>5738</u>

*As at February 1996. Delays have since occurred.

Source: PEO, *Government of Egypt Privatisation Program* (Cairo: PEO, February 1996).

FIGURE 4-A:
The Tourism
Privatisation
Process



The payment, of between 12,000 and 35,000 Egyptian pounds, was expected to cost a minimum of 700 million pounds.⁸³ To further tackle the expected unemployment problem, Egypt established a Social Fund in 1992, assisted by the World Bank, to provide employment in social and public works projects.⁸⁴

The privatisation programme was assisted by the appointment of a new Prime Minister, Kamal al-Ganzouri in 1996. Although having opposed the pace and details of some earlier reforms, after assuming the Prime Ministership Ganzouri set about expanding and accelerating economic liberalisation and privatisation.⁸⁵ Prior to Ganzouri's appointment, privatisation had not completely stalled, however few tourism firms, property, or related assets had been prepared for sale. However the privatisation programme remained a controversial issue, and delays continued beyond 1996, when the Holding Company for Housing, Tourism and Cinemas had sold only about one-sixth of its assets planned for sale.⁸⁶ In the 1996, the Egyptian government made a long list of planned privatisations, including 36 hotels and ships.⁸⁷

Other Tourism Reforms since 1991

Privatisation has been the most visible aspect of Egyptian economic liberalisation in the 1990s, however some other reforms have also taken place in, or related to, the tourism sector. Perhaps the most important macroeconomic reform has been the liberalisation of the Egyptian currency. The pound was gradually moved towards its market value in the late 1980s and early 1990s, and a fully free market

⁸³ *Ibid.*, n.p.

⁸⁴ Gouch, "Egypt Prepares to Privatize", *op. cit.*, p. 7.

⁸⁵ Steve Negus, "Mubarak's New Government", *Middle East International*, 19 January 1996, (517), pp. 13-14.

⁸⁶ See *Privatization Middle East and North Africa*, 22 July 1996. InterNet source at <http://www.pmena.com>. Although the privatisation process has proven slow, it is not without substance; the sales that took place up to 1996 brought the government about 512 million pounds (US\$150.5 million) in income.

⁸⁷ Brochure distributed by the PEO, *Government of Egypt Privatisation Program* (Cairo: PEO, February 1996), n.p.

Table 4.4: Tourism to Egypt in the 1990s

	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998
Arrivals (000s)	1,833	2,351	2,411	2,112	2,944	2,112	2,582	3,133	3,510	3,656	3,766

Source: Figures compiled by the author, from the following: Antonio Enriquez-Savignac, "The Tourism Potential of the Middle East", *al-Iqtisad wa al-A'mal*, Special Issue 'Tourism Without Borders', Year 16, March 1995, p. 3; 'misr: al-riyada', *Ibid.*, p. 29; World Tourism Organization, *Tourism Highlights 1999* (Madrid: World Tourism Organization, 1999), retrieved electronically at <http://www.world-tourism.org>; and from statistics for the years 1994 and 1995 supplied by the Egyptian Ministry of Tourism to the author, May 1996.

Table 4.5: Private Sector Growth In Tourism Investment In Egypt, 1982/83 — 1992/93

	1982/83	1983/84	1984/85	1985/86	1986/87	1987/88	1988/89	1989/90	1990/91	1991/92	1992/93
Public Sector Investment*	45.5	67.6	33.0	45.5	70.0	87.2	99.0	81.8	70.9	31.2	Nil
Private Sector Investment*	27.0	47.7	26.8	27.5	51.5	48.0	56.0	119.8	324.0	268.9	351.0
Total Tourism Investment*	72.5	115.3	59.8	73.0	121.5	135.2	155.0	201.6	394.9	300.1	351.0
Public Sector Share**	62.8	58.6	55.2	62.3	57.6	64.5	63.9	40.6	18.0	10.4	Nil
Private Sector Share**	37.2	41.4	44.8	37.7	42.4	35.5	36.1	59.4	82.0	89.6	100.0
Percentage Change in Tourism Investment	— 7.1	+ 59.5	— 48.1	+ 22.1	+ 66.4	+11.3	+ 14.6	+30.1	+ 95.9	— 24.0	+ 17.0

* Million Egyptian Pounds

** Percentage

Source: Egyptian Ministry of Planning, reproduced in "al-biltagi: 1994, kharuj al-siyyaha min azmatihā", ["al-Biltagi: 1994, The Aftermath of the Crisis"], *al-Iqtisad wa al-A'mal*, Special Issue 'Tourism Without Borders', Year 16, March 1995, p. 68.

for a single unified rate was established in 1992.⁸⁸ While it was expected that the pound would plummet after its trade and international movement was completely liberalised, it has in fact proven quite stable, except for one serious fluctuation in July 1994.⁸⁹ The currency reforms have made it simpler to change currency, at rates which reflect the market, rather than an artificially high, officially-set rate.

Reforms to taxation and imports were also undertaken in the early 1990s. These included a simplified income tax schedule with fewer distortions, and the introduction of an indirect, value-added tax in mid-1995.⁹⁰ Indirect taxes on the tourism sector have generally been kept lower than the average, so as not to deter potential tourists, although as Egypt is a relatively cheap country to travel in, taxes seem to have had little impact on tourists' willingness to visit. Reforms in the 1990s to rules on imports made it easier for tourism-sector firms to import luxury products and other goods which feature prominently in the tourism sector such as vehicles, electrical appliances, alcoholic beverages, and the like.⁹¹

The role of the private sector in tourism investment soared after 1991, reaching 100 percent in 1993 and remaining there since that time.⁹² (See Table 4.5). Apart from government marketing and monitoring of tourism, on which only about US\$22 million was spent⁹³, all investment directly in tourism since 1994 has been from the private sector.

⁸⁸ Simon Brindle, "A High Rise Economy", *The Middle East*, January 1995, p. 26.

⁸⁹ *Ibid.*, p. 26.

⁹⁰ On the taxation system and some of the reforms of the 1990s, see Hazem Hassan, "A PSD-Friendly Tax System", in Marcelo M. Giugale & Hamed Mobarak (eds.), *Private Sector Development in Egypt* (Cairo: American University in Cairo Press, 1996), pp. 74-104.

⁹¹ Brindle, "A High Rise Economy", *op. cit.*, p. 26.

⁹² See "wazir al-siyyaha al-misriyya, al-biltagi: 1994 kharuj al-siyyaha min azmatiha" [Minister of Tourism of Egypt, al-Biltagi: 1994, Tourism Overcoming its Crisis"], *al-Iqtisad wa al-'Aamal*, Special Issue 'Tourism Without Borders', Year 16, March 1995, p. 68-69.

⁹³ Huband, "Egypt: Privatisation — Handover Needs Some Juggling", *op. cit.*

THE RELATIONSHIP BETWEEN ECONOMIC LIBERALISATION AND TOURISM: THE POLITICAL DYNAMICS

What, then, does Egypt's experience with economic liberalisation and tourism say about the relationship between the two? How have the political dynamics within Egypt, and between Egypt and other states, affected the relationship? And what pressures have economic liberalisation and tourism placed on either other and on Egypt?

The Role of the Egyptian Government

To the Egyptian government, the benefits of tourism development are many, and sit well with a regime which has come to see its position in the Egyptian economy, and the international economy, as one which is diminishing and increasingly uncertain.

There are, of course, the generic reasons for government-initiated tourism expansion, and in this sense Egypt is little different from other Arab states (or states anywhere, for that matter). Tourism is widely viewed, too simplistically of course, like manna from heaven; tourists come to Egypt, spend what is (by local standards), enormous amounts of money, create a variety of new employment opportunities by virtue of its labour-intensive nature, and pose little if any political or social threat, and any social threat they do pose can be countered with intelligent government policy. Further, tourism is a perpetual industry; successful tourism sectors throughout the world appear to have long lives, with tourists returning year after year to the same place. The tourism sector is certainly not as simple as this outline would suggest, but to many governments, and especially those in need of a rapid treatment for economic ailments in their economies, such arguments are continually propounded as an answer to economic decline or change. Egypt's comparative

advantage in tourism, and its long history as a tourism destination, further contribute to the prominence of tourism in the government's economic development agenda.

There are, however, some aspects of the Egyptian political economy which shed light on the ways in which liberalisation and tourism have formed a relationship in that state, and in others like it. The Egyptian government is faced with the problem, not unique to the region, of changing economic structures and development orthodoxies pushing the economy, and the political dynamics relating to the economy, away from the state-centred models of previous decades. The dominance of the Egyptian state in the economy is diminishing, which poses the dilemma for the government: How to retain political power while ceding economic hegemony.

The Egyptian government has answered this question with a combination of economic rationalism and liberalisation mixed with a far more gradualistic, 'guided' transformation of the political process. It is no surprise, then, that political concerns have typically over-ridden economic imperatives on the occasions when the two have clashed, as the government has, understandably, valued its own survival above all else.

Tourism has been selected as a prominent aspect of economic liberalisation not least because it offers, above its basic economic benefits, little threat or challenge to the politics of Egypt. Tourists pose little political threat to the Egyptian government, even in the case of Israeli tourists visiting Egypt (which, immediately after Camp David, was widely perceived as a threat to Egyptian politics and society).

The Egyptian government has found further encouragement for tourism in the growing number of Arab visitors, especially those from the Gulf and neighbouring Arab states. The few political threats from Western or Israeli holiday-makers are even less in the case of Arab visitors, who in general have a greater appreciation for Egyptian culture and society than those coming from outside the region. Therefore, while pursuing Western tourists because of their comparative wealth, the Ministry of Tourism has placed considerable emphasis on further

expanding tourism from other Arab states as well.⁹⁴ That in 1995 24.7% of tourists to Egypt were from Arab states highlights the importance of Arab visitors in Egypt's tourism sector.⁹⁵ This is not to say that Arab tourists have not created problems for the Egyptian government and for society. Visitors from the Gulf states, in particular, have supplied much of the demand for the growth of prostitution services in Egypt in recent years.⁹⁶ But in general their presence and impacts are far less conspicuous than those of Western tourists. Further, a large minority of visitors to Egypt are business and conference travellers, or those visiting for other, 'non-tourism' reasons.⁹⁷ In initiating and supporting tourism and a liberalisation of the sector, therefore, the Egyptian government seems to have placed importance on diversity.

The reforms which have so far occurred throughout the Egyptian economy testify to the political considerations of economic liberalisation. The most substantial reforms of the 1990s have been in the financial and trade area — in the exchange rate, controlled privatisation, tax reform, and some price controls — rather than across the entire economy. Liberalisation has not always occurred where it is most necessary; in reducing the size, and increasing the efficiency, of the public service, in labour laws, in judicial reform.⁹⁸ Liberalisation has its 'winners' and 'losers', and the impact of reform on the losers is invariably more immediate and severe than the positive impact on the winners.⁹⁹ Thus the strong opposition by the losers, who, furthermore, are often in a position to influence politics more effectively than the winners, besides which many of whom are only potential winners. Tourism appeals

⁹⁴ This emphasis was outlined to the author in an interview with Mr Muhammad Shirazi, Senior Officer, International Public Relations Department, Egyptian Ministry of Tourism, Cairo, 6 May 1996.

⁹⁵ Approximate figure only, based on preliminary data supplied by the Information Centre of the Egyptian Ministry of Tourism, Cairo, obtained by the author 2 May 1996.

⁹⁶ Karim el-Gawhary, "Sex Tourism in Cairo", *Middle East Report*, 196, (September-October 1995), pp. 26-27.

⁹⁷ "Misr: al-riyada" ["Egypt: The Pioneer"], *al-Iqtisad wa al-A'amel*, Special Issue "Tourism Without Borders, Year 16, March 1995, p. 29.

⁹⁸ See The Egyptian Businessmen's Association, "The Role of the Government" & The American Chamber of Commerce in Egypt, "The Role of the Private Sector", both in Giugale & Mobarak, *op. cit.*, pp. 12-28 and 29-44.

⁹⁹ Said el-Naggar, "Development, the Liberal Way, Part 1", *Al-Ahram Weekly*, 11-17 April 1996, p. 10.

to the Egyptian government because it has very few losers, and the government has a relatively free hand in tourism reform and expansion because there is less opposition, from possible losers, to such change. Few, if any, job losses are likely as a result of the sale of tourism assets, as it is only the assets passing into private hands. The management of hotels has long been under private sector control, and tour companies and the like are expected to grow, rather than contract, if the enormous growth in tourism in the past few years continues.

Within the government, there has been opposition to liberalisation which has impacted on the tourism sector, but usually in the form of opposition to reform in general rather than to tourism per se. Some ministers, especially those in areas previously given great importance, such as industry and manufacturing, have opposed reform. However the fact that tourism has not generally been seen as a threat has largely protected it from attack from within the government. Further, that the tourism portfolio has had relatively strong ministers has been important, especially in the case of Fouad Sultan. Under Sultan, economic liberalisation and tourism were seen to be not just compatible phenomena, but as a reality which needed to be more closely related and linked under the stewardship of the Mubarak government. Rather than being an advocate of privatisation (although a supporter of it he certainly was), he energetically "aimed at liberalizing the management of the public sector".¹⁰⁰ Sultan asserted his view at every possible opportunity, "He contributed articles to newspapers ... lectured in Egypt and abroad, promoted the hiring of foreign firms to manage several facilities in the hotel and air transport services, and claimed to have provided managers in the tourist industry with the powers necessary to conduct good business."¹⁰¹ Through these media and policies, Sultan aggressively influenced government thinking on economic management and liberalisation.

¹⁰⁰ Mustafa Kemal Al-Sayyid, "Privatization: The Egyptian Debate", *Cairo Papers in Social Science*, (Cairo: American University in Cairo Press), 13, Monograph 4, Winter 1990, p. 28.

¹⁰¹ *Ibid.*, p. 28.

The most serious problem with the linkage of tourism policies and liberalisation in Egypt has not been a failure to adequately liberalise the sector, as has been the case with some other Arab states. There are problems for the tourism sector in the delays and problems of liberalisation, as outlined above, but Egypt is one of the most investor-friendly and tourist-friendly states in the Middle East. The most significant, long-term problem for Egypt is in fact *over*-liberalisation in the tourism sector, or more precisely, the liberalisation of tourism too rapidly and with inadequate forethought to the consequences and management of tourism. There is no reason why Egypt cannot have, in the long-term, an enormous and highly profitable tourism sector, in line with the government's anticipation of seven million or more tourists, which it ambitiously wants to achieve by the year 2002.¹⁰² But ideally, tourism should not expand at a rate higher than 10-12 percent per annum¹⁰³, and even that level of growth requires a detailed strategic plan to avoid the problems of excessive tourism impact. At present, however, Egypt has no long-term plan for tourism development, and no strategic plan for what types of tourists it would like to attract or where they should come from. Yet at the same time it has offered vast areas of land to development projects— often prime real estate along the coast — without any planning for social and environmental problems which may stem from such rapid development.¹⁰⁴ There are few areas not currently designated for tourism development.

The potential problems from such a lack of planning include damage to the environment, dissatisfaction from local residents, rapid social and economic change and an inequity in economic distribution, and an over-supply in the sector leading to a collapse in investment and employment. As a result, Egypt may fall victim to the 'Tourism Cycle', where a destination becomes destroyed or damaged by tourism to

¹⁰² "akthar min 7 milayin sa'ih fi al-'amm 2002" [More than 7 Million Tourists by the Year 2002"], *al-Iqtisad wa al-A'mal*, Special Issue 'Tourism and Prospective Peace', Year 18, May 1996, pp. 72-73.

¹⁰³ Egyptian Businessmen's Association, "The Role of the Government", *op. cit.*, p. 27.

¹⁰⁴ Author's interview with Mr. Robert Bischert, Tourism Consultant, Associate Director, Coopers & Lybrand/Jawad Habib & Co., Bahrain, 30 June 1996.

such an extent that tourists no longer want to visit it.¹⁰⁵ This self-destructive aspect of tourism has already been felt in other parts of the world, such as Thailand, Mexico, and the United States, where the social and economic consequences have been disastrous.

The very beginnings of tourism self-destruction may be underway in Egypt, along the northwest coast, according to a study by Soraya Altorki.¹⁰⁶ Altorki studied the affects of tourism on Marsa Mutrah, which has expanded three-fold in thirty years, largely as a result of tourism growth. It is a town of 35,000 people, with 54 hotels. This study suggests that any benefits from tourism, such as increased employment, construction and the like, have been overshadowed by the problems of increased imports, agricultural decline, the emergence of tourist 'enclaves', greater local resentment of tourists, and social problems such as alcoholism and the beginnings of a prostitution industry. The study suggests that "quantity has overpowered quality" — a case, in other words, of over-liberalisation. It is exactly this sort of relationship between liberalisation and tourism that the government of Egypt says it wants to avoid.

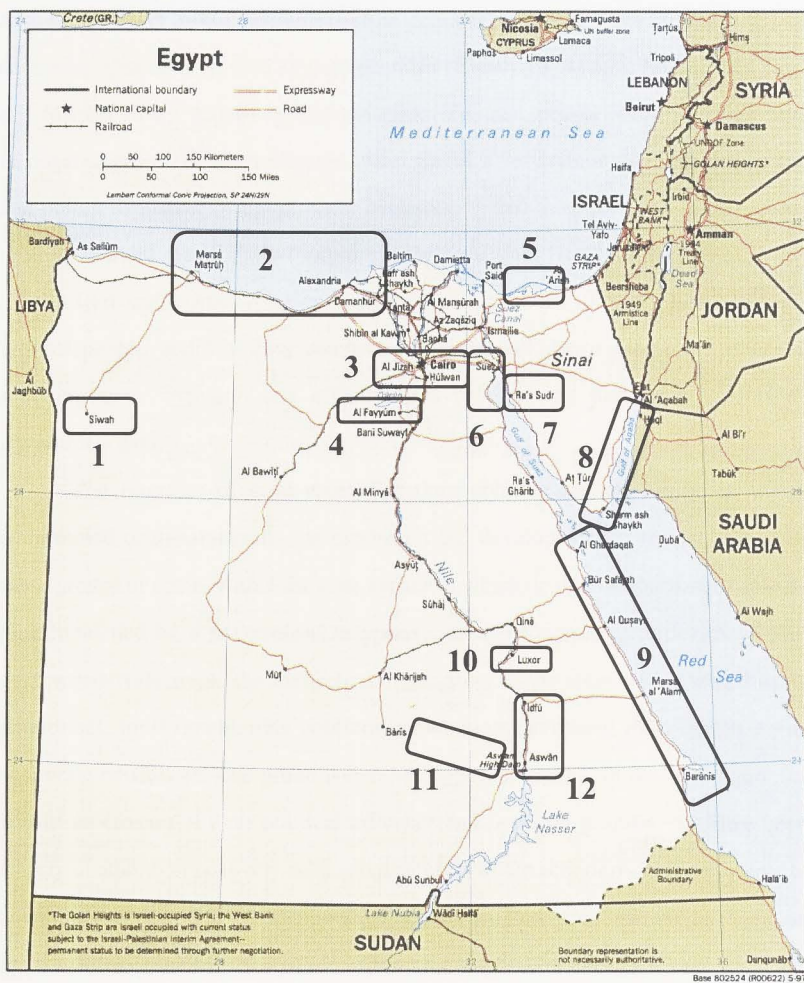
The Public Sector, Economic Liberalisation, and Tourism

Public sector managers and trade unions, although forming the most obvious opposition forces to economic liberalisation, have in the late 1980s and 1990s been able to make very little impact on the policy-making process in Egypt, and as a result have had little impact on slowing or stopping economic reform. Trade unions have witnessed diminishing influence in their relations with the government. Despite the fact that various unions typically share the same perspectives and concerns on

¹⁰⁵ Gareth Shaw & Allan M. Williams, *Critical Issues in Tourism: A Geographical Perspective* (Oxford: Blackwell, 1994), pp. 83-84 (Box 4.2).

¹⁰⁶ Dr. Soraya Altorki, "Tourism Development on Egypt's Desert Northwest Coast", speech to the *Third AUC Research Conference, 'Sustainable Development in Egypt'*, American University in Cairo, Cairo, 22 April 1996.

Figure 4-B: The Over-Liberalisation of Tourism?
A Map of Tourism Development Areas in Egypt



- | | |
|----------------------|--|
| 1. Siwah | 2. Mediterranean Coast (Marsa Matruh, Ras al-Hekma, Sidi Abdel Rahman, Alexandria, Nile Delta) |
| 3. Cairo & Giza Area | 5. Al-Arish |
| 4. 'Al-Fayum | 6. Suez & Surrounds |
| 7. Ras Sidr | 8. Gulf of Aqaba |
| 10. Luxor | 9. Hurghada & Red Sea |
| 11. Tushka | 12. Aswan & Surrounds |

Source: Brochure from Tourism Development Authority, Cairo, Egypt, no date & author's notes

liberalisation, they have rarely presented a cohesive and powerful opposition to government programmes. Public sector managers, despite being very well qualified and, at the higher levels, possessing some political skills, have also failed to oppose economic liberalisation with any considerable efficacy.¹⁰⁷ At most levels, they have not formed lobby groups or organisations. Further, people with technical and managerial expertise, the 'technicos', have played a very minor role in management and policy formation in Egypt under Mubarak,¹⁰⁸ and thus have had to rely, even more than usual, on 'politicos' to present their position. However the higher levels have often cultivated relations with political elites and/or private sector businesspeople, and thus have competing interests to balance and protect, thereby reducing their cohesion and effectiveness in opposing particular aspects of government policy.

The interests of state elites and the public sector are rarely, if at all, undermined or threatened by the expansion and development of tourism. Further, those groups or actors within the state apparatus which do oppose tourism, or at least feel threatened by a government reappraisal of its economic priorities, have also proven relatively weak and ineffectual. Managers and the elites within state-owned enterprises, most notably the 'politicos' which have developed from the Nasserist economic edifice, are one group which has opposed changes in the status quo, for fear of an erosion of their political influence and financial position, but have been largely unable to oppose any substantial reforms to the economy. Their attempts to counteract privatisation and increased competition in their economic sectors have, on the whole, been ineffectual.¹⁰⁹ One important exception, in the Egyptian tourism and transport sector, is the case of Zarkani Air Services (ZAS).

ZAS was formed as Egypt's first private sector airline in the late 1980s. The airline was established in direct competition to Egyptair, with the plan of offering

¹⁰⁷ Waterbury, *op. cit.*, chapter 6.

¹⁰⁸ Springborg, *op. cit.*, p. 28.

¹⁰⁹ Waterbury, *op. cit.*, chapter 6.

cargo, charter, and possibly some scheduled passenger flights on international sectors.¹¹⁰ The airline faced insurmountable challenges to its operations, however, and ultimately went out of business in 1995. ZAS faced a number of general problems in its early years, the most important of which were its limited routes (in comparison with its competitors), and the downturn in tourism in 1992, 1993, and 1994; the latter of which created financial problems, forcing the airline to suspend its expansion plans.¹¹¹

The ultimate reason for its failure, however, was opposition from Egyptair.¹¹² Egyptair was able to restrict the activities of ZAS at Cairo airport, and its access to facilities, which coupled with the downturn in traffic at the time made operations very difficult for ZAS.¹¹³ Egyptair has long opposed competition of the nature offered by ZAS, in particular with charter flights.

Cases such as that of ZAS, however, are quite rare in the Egyptian tourism sector. Egypt's other private sector airline, Raslan Air Service, has limited its operations to VIP and business travel, mostly in the domestic market but also with a limited international capacity.¹¹⁴ Any new airlines, such as that planned by the Egyptian Chamber of Tourism, would be limited in scope, to a small number of charter flights, and in size, given the planned 100 million Egyptian pound establishment capital.¹¹⁵

The Private Sector, Economic Liberalisation and Tourism

The private sector has gained increasing political influence through greater

¹¹⁰ At the time that its first aircraft were delivered, in 1989, ZAS had authorisation to operate from Egypt to Addis Ababa, Mogadishu, Valletta, Lisbon, and Amsterdam. See Bailey, "The Future for Middle East Airlines", *op. cit.*, p. 11.

¹¹¹ "Punishing Punches", *The Middle East*, November 1993, p. 40.

¹¹² "Egypt: Egypt Tourism Chamber Says May Set Up Own Airline", *Reuters*, 2 March 1997, Article Reference 000989865259.

¹¹³ Author's interview with Dr. Ibrahim Abdul Aziz Hegazy, Assistant Professor of Marketing and International Business, American University in Cairo, Cairo, 12 May 1996.

¹¹⁴ Philippa Nugent, "The Flying Squads", *The Middle East*, January 1997, p. 24.

¹¹⁵ "Egypt: Egypt Tourism Chamber Says May Set Up Own Airline", *op. cit.*

cohesion, and through the diversification of its activities. Links with the public sector, which were the norm during Sadat's *infitah*, have gradually been replaced with a more autonomous private sector. Unlike actors which generally oppose economic liberalisation, such as the trade unions and the managers of state owned enterprises, Egyptian businesspeople have been able to compensate for their indirect and relatively limited political influence by presenting a unified, structured position on matters of greatest concern, such as economic reform.

One reason for the collapse of government resistance to economic liberalisation in the early 1990s was the informal alliance which came into existence between the Egyptian private sector and foreign actors. The ability of the United States, the IMF, and the World Bank to co-ordinate the application of pressure on the Egyptian government was further strengthened by their interaction with the private sector, especially large- and medium-sized businesspeople. Foreign firms have represented their views, albeit extremely subtly, through their Egyptian agents, which number around 5,000, while foreign interests have also been reflected in the views of the 7,000 or 8,000 import agents.¹¹⁶ On the whole, however, these agents and their foreign partners are more concerned with general reforms, such as the reduction of bureaucratic obstacles, than with specific liberalisation policies. USAID, in concert with the American Chamber of Commerce in Egypt, has been a notable exception. It has pushed strongly for privatisation and broad-ranging liberalisation of the economy.¹¹⁷

Another area where the private sector has co-ordinated its position and strengthened its voice is in the parliament. The *Wafd* party's traditional bourgeois background is largely, though not exclusively, represented in the members it sends to parliament, and a number of private sector individuals, including some *munfatihun*, have linked themselves with Mubarak's National Democratic Party (NDP), through

¹¹⁶ Hinnebusch, "The Politics of Economic Reform in Egypt", *op. cit.*, pp. 166-167.

¹¹⁷ *Ibid.*, p. 167.

which they have been able to influence policy both directly in parliament and indirectly through NDP friends in high places.¹¹⁸

Egypt's Islamists, Liberalisation, and Tourism

Egypt's Islamists also form between liberalisation and tourism, especially through the negative international publicity created by radical Islamist attacks against tourists. Islam has also featured in the public policy debate and decisions on the direction of tourism policy and promotion in Egypt. Throughout the Egyptian polity, there has been a general trend away from the secular polity of Nasser's era, as an increasing number of institutions and political groups in Egypt have developed a more Islamist orientation. In particular, the *Ikhwan al-Muslimun* (Muslim Brotherhood) has gained a more prominent profile in Egyptian society over the past decade.¹¹⁹ In the case of tourism, however, the far smaller *Gama'a al-Islamiyya* (Islamic grouping) has had the greatest impact, through acts of violence against foreign, especially Western, tourists.¹²⁰ During 1992 and 1993 especially, *Gama'a* attacks on tourists caused severe damage to the tourism sector, estimated at about US\$1 billion during those two years of particularly strong anti-tourism activity.¹²¹ In twenty or so attacks during the period 1992-1995, eight tourists were killed and about fifty wounded.¹²² The November 1997 attack on tourists at Luxor resulted in the deaths of fifty-eight tourists and four Egyptians. The membership profile of the *Gama'a*, in particular, is dominated by the poorer elements of Egyptian society,

¹¹⁸ Owen in Salamé, *op. cit.*, p. 185.

¹¹⁹ See for example Gudrun Kramer, "The Integration of the Integrists: A Comparative Study of Egypt, Jordan, and Tunisia", in Salamé, *op. cit.*, pp. 200-226.

¹²⁰ Andrew Album, "Egypt Faces its Moment of Economic Truth", *The Middle East*, July/August 1995, p. 28; and Grace Halsell, "Terrorism and Tourism in Egypt", *Christian Science Monitor*, 14 April 1995, p. 18.

¹²¹ Economist Intelligence Unit, *Egypt: Country Report, Third Quarter, 1994* (London: Economist Intelligence Unit, 28 July 1994), p. 27, quoted in Cassandra, "The Impending Crisis in Egypt", *Middle East Journal*, 49, 1, Winter 1995, p. 19.

¹²² Mona Eltahawy, "Egypt: Egypt Says it's Back on Tourist Map", *Reuters*, 13 February 1996, Article Reference 000789109363.

those most excluded from economic opportunity in Egypt and most likely to lose under the policies of economic liberalisation.¹²³

That the *Gama'a* chose tourism as a primary target in its campaign against the government highlights the negative relationship between liberalisation and tourism, and how the benefits of liberalisation may be off-set by negative effects in important economic sectors such as tourism. As a backbone of the Egyptian economy, a collapse in tourism is felt extremely strongly by the government, especially as it has attempted to use tourism as an economic 'cushion' against the painful impacts of economic restructuring. Tourism provides about one million direct jobs, and 4-5 million indirectly, beyond its importance as one a source of foreign income.¹²⁴ Hence the emphasis of the *Gama'a* on attacking the tourism sector.

There is some contention over the effectiveness and efficacy of the government's response to the Islamists, especially the *Gama'a*. In the case of the *Ikhwan*, which has vowed not to use violence, the government has used a blend of co-optation, integration, and occasional use of force against them, depending on the circumstances involved. In the case of the *Gama'a*, however, the government response has been the use of force; a number of *Gama'a* were sentenced to death in the mid-1990s, and the military has been continually used to crush physically the group's operations.¹²⁵ A large number of Islamists, including *Gama'a* members, have been imprisoned in recent years.¹²⁶

With the exception of the 1997 Luxor massacre, the *Gama'a* have not succeeded in making too many attacks against tourists since late 1994, and the tourism industry recovered to record levels between 1995 and 1997, and again in 1998.¹²⁷ The events of the mid-1990s, however, provide a clear example that a social

¹²³ Cassandra, *op. cit.*, p. 20.

¹²⁴ *Ibid.*, p. 20.

¹²⁵ Album, "Egypt Faces its Moment of Economic Truth", *op. cit.*, p. 28.

¹²⁶ Halsell, "Terrorism and Tourism in Egypt", *op. cit.*, p. 18.

¹²⁷ "Egypt: 1995 was Record Year for Egyptian Tourism", *op. cit.*; and author's interview with Mr. Paul Malcom, Director of Marketing, Marriott Hotel, Zamalek, Cairo, 16 May 1996.

force can have a profound impact on one area of the economy, such as tourism, because of its displeasure with another area, such as economic liberalisation, or because of its opposition to the government in general.

Economic Liberalisation, Tourism, and Peace with Israel

The peace process between Egypt and Israel has played a substantial role in the relationship between economic liberalisation and tourism, and in determining the outcomes of both, but especially the latter. The Camp David Accords constituted the backbone of a military cease-fire and framework for peace between Egypt and Israel. Signed on 17 September 1978, under the co-ordination of the then US president Jimmy Carter, the Accords and subsequent agreements and statements involved not only mutual diplomatic and political recognition, but also the introduction of economic relations between the two states, including the freedom of travel across their shared border.

After the Camp David Accords, further agreements directly in the sphere of tourism were signed between Egypt and Israel; in particular, a memorandum of understanding on civil aviation in February 1980, and a broader memorandum on tourism traffic between the two states in March 1980.¹²⁸ The affects were almost immediate. In the first five years after the Egypt-Israel border was opened to travellers (1980-84 inclusive), 980,383 people crossed from Israel to Egypt, including 161,010 Israelis, and 907,992 people entered Israel from Egypt, with 17,958 being Egyptian.¹²⁹ During the 1980s, tourism between Egypt and Israel was also significant, but fluctuated (as with tourism numbers overall) depending on the stability of international and domestic politics in the region. In the 1990s, Israeli tourism to Egypt fell as a result of the 1990-91 Gulf War, and because of Islamist

¹²⁸ Yoram Meital, "The Economic Relations Between Israel and Egypt: Tourism, 1979-1984", in Gideon Fishelson (ed.), *Economic Cooperation in the Middle East* (Boulder: Westview Press, 1989), p. 284.

¹²⁹ *Ibid.*, pp. 285-294.

attacks on tourists and the fact that Israelis were targeted in these attacks.¹³⁰ Nonetheless, in 1991 Egypt received 120,228 Israeli visitors¹³¹ — hardly an insubstantial number. These statistics suggest several things about liberalisation and tourism, but also conceals some other facts.

The majority of people crossing the Egypt-Israel border are tourists, as opposed to businesspeople or workers. Prior to 1979, Western tourists intending to visit both Egypt and Israel could do so only if they went first to Egypt, and then travelled to Israel through Cyprus, Greece, or another state. There was no simple method of visiting both states, and to do so was extremely expensive and frustrating. By the early 1980s, in contrast, a Western tourist was able to travel between the two states easily and cheaply. Further, after their shared border was opened, and especially in recent years, the two states were able to be jointly marketed to potential tourists, increasing the likelihood of a tourist choosing to visit both states rather than only one.

However, what the figures conceal is the fact that Egyptian tourism to Israel was only partially liberalised after 1979, at least for Egyptian nationals. An Egyptian wishing to travel to Israel had to first obtain permission from Egyptian security, and then after the visit had to account for how his or her time was spent in Israel — a policy which continued until 1994.¹³²

The Egyptian-Israeli rapprochement presented a greater opportunity for travel by the citizens of each state to the other than has actually taken place. Instead, the visibility of Israeli tourists in Egypt, for example, has made them targets for Islamists, and many Egyptian complain that Israeli tourists are arrogant or that they should not be allowed to visit Egypt.¹³³ Tourism, therefore, seems to have

¹³⁰ Robert Bowker, *Beyond Peace: The Search for Security in the Middle East* (Boulder: Lynne Rienner, 1996), p. 49.

¹³¹ Robert Vitalis, "The Middle East on the Edge of the Pleasure Periphery", *Middle East Report*, 196, (September-October 1995), p. 5, (Table III).

¹³² Bowker, *op. cit.*, p. 48.

¹³³ The idea of Israeli tourists as 'arrogant' was expressed to the author in a number of interviews with Egyptians in April and May 1996, although there is little, if any, evidence to support such an assertion. The extent of Egyptian opposition to Israeli tourism is, however, indicative of this attitude;

contributed little to the peace process and thus little towards the reinforcement of tourism or cultural links between the two states.

Much of the potential benefit for tourism from the peace process and the liberalisation of travel and business is yet to be realised. The possibility of closer co-operation in developing a 'Red Sea Riviera' in the Gulf of Aqaba, combining the facilities of the Sanai (Egypt), Eilat (Israel), and Aqaba (Jordan), has yet to occur, and would be greatly in Israel's favour given its dominant facilities.¹³⁴ Only in the longer term could Egypt, despite possessing the majority of the coastline, capture a sizeable proportion of tourists and revenue under such a co-operative arrangement.

CONCLUDING REMARKS

The economic liberalisation of tourism in Egypt is nothing new. Beginning with the opening of the Nile Hilton hotel in Cairo in 1958, the Egyptian government has given a comparatively free hand to the tourism sector, especially in comparison with other sectors of the economy. Nonetheless, economic liberalisation under Husni Mubarak, especially since the IMF standby agreement in 1991, has included a rapid acceleration of reform in the tourism sector.

It is tempting to suggest that economic liberalisation and reforms to the tourism sector have an overwhelmingly positive impact, given the general increase in visitors and their contribution to the economy over the past three decades, which has coincided with gradual steps towards economic liberalism. In contemporary Egypt, tourism is the economy's largest single source of foreign exchange earnings, and tourist numbers are at record high levels, at a time when the tourism sector is larger, more privatised, and more 'tourist-friendly' than it has ever previously been.

in an opinion poll of Egyptians in January 1995, 53% of those polled said they opposed Israelis visiting Egypt. Poll conducted by *al-Ahram*, cited in *Jerusalem Post International Edition*, week ending 7 January 1995, p. 3, quoted in Bowker, *Beyond Peace*, p. 50.

¹³⁴ David Beirman, "Tourism and its Role in Facilitating the Israeli-Arab-Palestinian Peace Process", paper presented to the *Australasian Middle East Studies Association Conference*, Australian National University, Canberra, Australia, 7-8 October 1994.

A coincidence?

Liberalisation and tourism, and the relationship between the two, are more complex than may appear to those who call for unbridled expansion of the tourism sector or the liberalisation programme. Several characteristics of the relationship between liberalisation and tourism have an impact, for better or worse, on the Egyptian political economy and society.

To be sure, there is much to celebrate in an expansion of tourism. The sector has provided more jobs than any other area of the economy over the past two decades.¹³⁵ These are not all poorly-paying or unskilled jobs; some have been highly technical, professional positions; such as the senior positions created by the growth of four- and five-star hotels¹³⁶ and the considerable expansion of Egyptair during the 1980s. Egypt's tourist attractions are spread throughout the country, and are not concentrated in a handful of places: Cairo, Alexandria, Luxor, Aswan, Marsa Mutrah, the Sanai, the Red Sea coast, and the western desert oases are all regions of enormous real or potential tourism wealth, with many of the financial benefits of tourism going to otherwise poor areas of the country.

However, there are problems with the liberalisation of tourism, and with tourism generally, if it is not managed wisely. Those outlined in this chapter are the most serious and pressing, such as the over-liberalisation of tourism and development, the risks of dramatic fluctuations in tourism as a result of circumstances outside and within Egypt, and the dangers posed by Islamists, or any other group, which can easily impact on tourism and its beneficial aspects.

As discussed elsewhere in this thesis, the privatisation programme is perhaps the most questionable aspect of the liberalisation of tourism, as its benefits appear to be minimal — especially in the case of hotels, where it is only land and assets, not management techniques and technologies, which are being transferred to the private

¹³⁵ Cassandra, *op. cit.*, p. 19.

¹³⁶ The Marriott hotel in Zamalek, Cairo, for example, has only five expatriate staff out of a total of some 1,500 staff. Not all the good jobs, it would seem, go to foreigners. Author's interview with Mr. Paul Malcom, Director of Marketing, Marriott Hotel, Zamalek, Cairo, 16 May 1996.

sector. The private sector does some things better than the public sector, but the extent of privatisation, and its impacts in the tourism sector, seem to have been inadequately considered by the Egyptian government. As much as anything, the sale of tourism assets — which are, by and large, profitable assets — is an attempt to encourage further privatisation in other areas, by offering to the private sector a group of assets which are in good financial health and easy to sell. Privatisation in the tourism sector, in other words, is designed to set an example.

The cautious move towards privatisation, along with the slow pace of other aspects of liberalisation such as labour and taxation reform, also highlights the hesitation of the Egyptian to cede economic power. To the extent that *infitah* has been a kind of informal agreement between the private sector and the state, exchanging the state's economic power for political support and elite diversification, the inverse mix of pace of reform on the one hand, and extent of reform on the other, is important. If this informal agreement is taken at face value, then the logical conclusion is that at some stage the state will no longer be in a position to use resources as a tool of political leverage. In the nearer term, however the mismanagement of the reform process, and of the tourism sector, is equally threatening to the position of the state vis-à-vis, and in the eyes of, society.

The seeds of self-destruction, of tourism and liberalisation alike, are present in a large, poorly managed tourism sector. Not only does the 'Tourism Cycle' provide a sort of Darwinian model of tourism fluctuation, but liberalisation needs to be paced and widely implemented if the 'winners' are not be overpowered by the 'losers'. So far, Egypt has avoided the long-term problems associated with tourism, and to a lesser extent those of economic liberalisation, but potential risks remain inherent.

CHAPTER FIVE

THE CASE OF SYRIA

Since his rise to power in 1970, president Hafiz al-Asad has presided over considerable changes in the economic, social, and even the political landscape of Syria. The state-led development (SLD) and import substitution industrialisation (ISI) policies of the 'radical' Ba'ath period (1966-70) have gradually been abandoned, in favour of a more liberal programme of economic development based on economic *ta'addudiyya* ('pluralism'). This economic transformation has strengthened the role of the private sector, encouraged foreign investment and international trade, and has also included a number of other micro- and macro-economic reforms. Although the economic liberalisation process has been gradual, and influenced by the political motives of the regime and its clients, there have been two periods of particularly strong economic change; the first *infatih* of the mid- to late-1970s, and the second *infatih* from 1986 to the mid-1990s.

Political liberalisation and democratisation have been largely absent from the Asad regime's reform agenda. Limited political changes were initiated by Asad in the early 1970s, during a period when he was undertaking a consolidation of his regime. More subtle changes have occurred in the social structure of Syria, and in the profiles of some actors in the regime, which in turn has caused the regime to reconsider its approaches to, and relations with, society. Although a democracy is yet to emerge in Syria, the social changes of the past three decades have increased the complexity of its political process.

A salient feature of both *infatih* periods, and of the regime's political agenda, has been the emphasis placed on the tourism sector and its expansion. Prior to the 1970s, "the tourism sector [in Syria] had hardly existed",¹ especially when compared

¹ Sylvia Pölling, "Investment Law No. 10: Which Future for the Private Sector?", in Eberhard Kienle (ed.), *Contemporary Syria: Liberalization Between Cold War and Cold Peace* (London: British

against the number or value of foreign leisure tourists visiting Syria in the 1990s. Although the tourism sector in Syria remains small compared to other Arab states, particularly in its ability to attract wealthy tourists from the Gulf and Europe, it has expanded in size considerably since the 1970s to become a significant and viable economic sector.

Syria is most commonly categorised as an 'authoritarian' state, an oversimplification which offers little insight into its complex political formula or its political process. To be sure, Syrian politics since 1970 has been overwhelmingly dominated by president Hafiz al-Asad. No other individual has as much power or influence as the president, however this is not to say that other individuals, institutions or groups do not have power and influence; for this reason, the position of Asad in Syrian politics is described by Patrick Seale as being between "institutions and autocracy".²

Perhaps the best description of the political structure of Syria is Raymond Hinnebusch's categorisation of Asad's government as an 'authoritarian (post-) populist' regime. Its authoritarian nature finds its source in the domination over, and penetration of, society by a strong state system, led by a dominant personality and a small group of often informal political elites. An authoritarian state seeks to either co-opt or subjugate the dominant classes within society, and also attempts to control the ability of external powers to influence the state and society. A populist element in such regimes is not uncommon, especially as many are post-colonial regimes with strong development agendas and social policies. In the case of Syria, especially from the 1963 revolution through to the late 1970s or early 1980s, policies such as rural development, social mobility, mass education, and strong institutional links between the regime and the lower classes all served to highlight its populist nature. Post-populist regimes — 1980s and 1990s Syria being an example, according to observers

Academic Press, 1994), p. 16.

² See Patrick Seale, "Asad: Between Institutions and Autocracy", in Richard T. Antoun & Donald Quataert (eds.), *Syria: Society, Culture, and Polity* (Albany: State University of New York Press, 1991), pp. 97-110.

such as Hinnebusch — enter a "phase in which they seek stabilization and accommodation with powerful interests and may abandon limited Leninization for limited liberalization which re-opens political access for the dominant classes".³

The economy of Syria at the time of Asad's ascension to power had been drastically transformed since the Ba'athist takeover of power in 1963; the policies of SLD and ISI had been pursued through a large-scale nationalisation program, changes to banking and foreign trade practices, land reform and labour law reform, as well as through a broadening of the social bases of the political system and of the Ba'ath party.⁴ Under Salah Jadid, who came to power in February 1966, the socialist transformation of Syria had been at its most 'radical'.

Despite the authoritarian-populist structure of Syria under the 'radical' Ba'ath, upon assuming power in 1970 Hafiz al-Asad was a relatively 'moderate' leader compared to his predecessors. He was "known to favour abandoning that regime's [the 'radical' Ba'ath regime of 1966-70] strategy of socialist transformation, reducing Syria's reliance on the socialist bloc and opening up to the West ... and, internally, to the private sector."⁵

Hafiz al-Asad controls much of the decision-making process in Syrian through the use of patrimonial politics; that is, by informal networks and the use of political clients. In this sense, he is similar to a traditional *za'im*, dispensing political favours in exchange for support and loyalty. The political process is also influenced by other political actors, and by the social groups and interests they represent, which operate in a more structured, formal way. The formal institutions established or expanded in the 1960s and 1970s, such as the *majlis al-sha'ab* (parliament), the trade unions, the chambers of commerce, and the economic committees, all play important roles in initiating, guiding, or influencing policy. Some of these groups were inherited by Asad in 1970, others have been created and nurtured by him, while still

³ Raymond A. Hinnebusch, *Authoritarian Power and State Formation in Ba'thist Syria* (Boulder: Westview Press, 1990), p. 2.

⁴ On the Ba'athist period before al-Asad, see Hinnebusch, *op. cit.*, chapter 5.

⁵ Volker Perthes, *The Political Economy of Syria under Asad* (London: I. B. Taurus, 1995), p. 41.

others have merged because of an inherent nature resulting from changes in Syrian society over recent decades.

Therefore despite the ubiquitous president, the political process in Syria generally, and the political process of economic liberalisation more specifically, policy-making in Syria is more complex than a simple model of autocracy, *za'im* patrimonialism, or military dictatorship might suggest.

This chapter outlines and explains the relationship between economic liberalisation and tourism in Asad's Syria. It argues that the relationship falls into four categories. The most obvious is the direct liberalisation of the tourism sector, particularly during the first *infitah* but to a lesser extent since then as well. The second linkage between liberalisation and tourism is the relationship between the state and certain social actors, the latter being active in both liberalisation and tourism. Third, tourism has had an impact on liberalisation, by influencing economic and social policies, and by acting as an economic cushion for liberalisation. And finally, international factors have played an important role in shaping the relationship between economic liberalisation and tourism, especially as the pressures brought by international changes have influenced both the liberalisation process and tourism, with both (at least in part) forming the regime's response to international events.

THE ECONOMIC LIBERALISATION OF TOURISM

The Beginnings of Economic Liberalisation, 1969-1971

The earliest liberalisation of the Syrian economy under Asad came immediately after he attained power, with a number of limited economic reforms, and also a broadening of the political institutions in Syria. Termed *al-haraka al-tashihiyya* (the correction movement), Asad's immediate goals at the time were to

retain the overwhelming majority of the SLD and ISI policies, while adding an emphasis on modernisation and technological development, in lieu of the agricultural emphasis of earlier Ba'ath leaderships. Private investments, on the condition that they were "productive" and "non-exploitative", were re-introduced, with a limited amount of Western investment allowed.⁶

The fact that *al-haraka al-tashihiyya* was state led, and restricted in scope, offers several insights into its origins and aims. Upon coming to power, Asad was undoubtedly aware that few of his predecessors had enjoyed a lengthy reign, with Syrian politics since independence in 1946 having been a turbulent chapter in the country's political history. Asad faced a number of real or perceived threats to his own authority, and to the Syrian state. These included the confrontation with Israel, which continued to evoke the memory of Syria's defeat in 1967 still prominent in the minds of its people, the need for economic growth as a boost to regime and to Syria's military capabilities, and the threat of internal opposition, or an ambitious competitor for the presidency, challenging Asad's position. The solution to all of these problems, as Asad saw it, was economic growth and technological progress. Although Syria's economic growth rate in the 1960s was not poor, by the 1970s, after Asad's reforms, it was much improved.⁷

Economic reform was also a means by which Asad could expand and consolidate his power base. Beyond simply using economic growth as a legitimising factor, and a way of placating disenchantment with his leadership or calls for political liberalisation, a development of the private sector could increase the size of the existing merchant and bourgeois classes, and create a new class of entrepreneurs. Such classes would be both loyal to, and reliant upon, the regime. It is indicative that

⁶ Perthes, *op. cit.*, p. 40.

⁷ According to the World Bank, Syria's average annual economic growth rate in the period 1960-70 was 5.7 percent, and in the period 1970-79 was 9 percent. The United Nations offers figures of 3.6 percent in the period 1963-1970, and 10 percent for 1970-79. Despite the discrepancy, and marked improvement in the 1970s, compared to the 1960s, is evident. Figures quoted in Kais Firro, "The Syrian Economy under the Assad Regime", in Moshe Ma'oz & Avner Yaniv (eds.), *Syria Under Assad: Domestic Constraints and Regional Risks* (New York: St. Martin's Press, 1986), p. 44-45.

the groups which were most sympathetic to Asad's seizure of power (in contrast to Jadid), and supportive of his liberalisation policies, were the bourgeoisie and upper middle class — those most likely to be involved in, or to have sympathy towards, private business.⁸

The First *Infatih* and the Liberalisation of Tourism

The first *infatih* has become the term for a series of measures introduced in the mid- and late 1970s aimed at expanding the role in the Syrian economy of private investment (through joint ventures) and private sector management, and which also included small doses of macro-economic restructuring and liberalisation. The first *infatih* contained a significant emphasis on expanding the role of tourism in the Syrian economy.

This predominantly was a state-led affair, that began after the 1973 October war. Initially an emphasis was placed on the expansion of Syria's industrial and manufacturing sectors, with Western companies playing a larger role in contracts than the formerly dominant Eastern European countries.⁹ Related to tourism was an increase in transport and communications facilities, especially in Syria's commercial aviation capabilities.¹⁰

The most important events of the first *infatih* occurred in 1977 and 1978, with the creation of mixed sector companies, in the tourism industry in particular. Most significant were Law Number 56 of 1977, which led to the Arab Syrian Company for Touristic Establishments (ASCTE) being formed by the Syrian businessman Uthman A'idi, and Law Number 41 of 1978 which created the Syrian Transport and Tourism Marketing Company (TRANSTOUR) of businessman Sa'ib Nahhas. A'idi and Nahhas, along with Abd al-Rahman al-Attar, owner of the Carlton

⁸ Perthes, *op. cit.*, p. 49.

⁹ *Ibid.*, p. 43.

¹⁰ *Ibid.*, p. 43.

and Fardoss Tower hotels in Damascus, and a handful of wealthy businessmen in other sectors of the economy, have become known as the "new rich"¹¹ business elites of Syria. This group is discussed at greater length later in the chapter.

The common characteristics of these laws, and of many which followed in the 1980s, was that they created mixed sector companies, with the government handing over to the private sector the managerial responsibilities of the enterprise.¹² The government maintained at least a 25 percent interest in the company, and more often between 40 and 49 percent, especially in the case of many smaller enterprises. The role of the government in the company was usually limited to the provision of capital such as land, property, and access to utilities, and private shareholdings in equity capital was typically limited to 5 percent per person (although not per family!). Such joint ventures enjoyed exemption from what were, at the time, extremely rigorous and controlled exchange rules, and exemptions from income taxes and some duties for up to seven years.

Joint venture companies such as ASCTE and TRANSTOUR were largely protected from competition, as evidenced by the fact that their establishment was made through specific laws, and not as the result of a general law liberalising the sector. Therefore, they were demonstrative of liberalisation in an extremely limited form, although as Perthes points out, such enterprises certainly "represented an element of *infitah*",¹³ in the sense that the role of the private sector in the economy was expanded. If, however, Ayubi was correct in his broad definition of what constitutes privatisation, then privatisation and (albeit limited) economic liberalisation certainly occurred in the tourism sector, and elsewhere, under Syria's

¹¹ Raymond Hinnebusch, "Syria", in Tim Niblock & Emma Murphy (eds.), *Economic and Political Liberalization in the Middle East* (London: British Academic Press, 1993), p. 193.

¹² The details which follow are taken from Pölling, *op. cit.*, p. 15; Sylvia Pölling, "The Role of the Private Sector in the Syrian Economy: 'Law No. 10 for the Encouragement of Investment' Against the Background of Ongoing Economic Liberalization and Market Deregulation", Speech to the conference *Economic and Political Change in Syria*, School of Oriental and African Studies, London, 27-28 May, 1993; and from author's interview with Mr. Jamie Banks, British Trade Attache to Syria, Damascus, 29 May 1996.

¹³ Perthes, *op. cit.*, p. 53.

first *infatih*.¹⁴

The first *infatih* did, of course, include reforms in areas other than tourism. The private sector was encouraged to play a greater role in service industries, consumer goods manufacturing, trade, and the building industry. A general trend at this time was the introduction of the private sector as go-between for the Syrian government and foreign business interests. For the tourism sector, more general reforms had little impact on the ability to attract significant numbers of wealthy foreign tourists, despite the continual optimism of the Asad regime in claiming that tourism had the potential to become one of the three most important sources of foreign income and employment. Real and perceived instability outside Syria but in its general region — the acquaintance of the Middle East with episodes of terrorism in the early 1970s, the civil war in Lebanon, the 1973 Arab-Israeli war, and the rapid increase in transport costs after the oil crisis of 1973-74, as examples — as well as some perceived instability within Syria, combined to provide little incentive to all but the most intrepid of travellers to avoid the Middle East region at this time.

Overall, the private sector expanded during the mid-1970s, although it remained unable to enter certain key sectors such as banking and heavy manufacturing.¹⁵ The limited role of the private sector is further borne out by Asad's assertion — a continual assertion, until *ta'addudiyya* ("pluralism") replaced it — of the public sector as "the leading sector".¹⁶

The end of the first *infatih* came gradually at the end of the 1970s, as economic problems emerged which challenged Asad's ability to continue the liberalisation process. Of particular importance was the surge in imports, at the

¹⁴ Ayubi categorises privatisation into "three main approaches and seven main modalities" (p. 5), under which the level of privatisation varies from a simple move such as allowing greater managerial or board freedoms in a state-owned enterprise, to the complete liberalisation and privatisation of all the means of production in a society. See Nazih Ayubi, "Etatism versus Privatisation: The Changing Role of the State in 9 Arab Countries", *Economic Research Forum for the Arab Countries, Iran & Turkey Working Paper Series* (hereafter, *ERF Working Paper Series*), Working Paper 9511 (Cairo: ERF, 1995), pp. 5-7.

¹⁵ Perthes, *op. cit.*, p. 51.

¹⁶ Moshe Ma'oz, *Asad: The Sphinx of Damascus. A Political Biography* (New York: Grove Weidenfeld, 1988), p. 79.

government's encouragement under *infitah*, by newly-created private sector and mixed sector ventures, especially in their role of procuring capital for the public sector. This indicated that *infitah* was ineffective on a macroeconomic level, while it had also served its role in creating a new core of elite support for the leadership. By 1981 the first *infitah* had largely fizzled out, although the status quo as of the late 1970s was, on the whole, maintained. The private sector was informed that there would be no moves toward de-liberalisation, but on the other hand there would be, for the time being, no further economic liberalisation. The 1970s was, above all, an era of regime consolidation and elite formation in Syria, with Asad attempting to establish his own brand of 'socialism' in Syria, with an agenda significantly at variance with Jadid and his other predecessors.¹⁷

The Second *Infitah* and Tourism

Whereas the first *infitah* was largely a case of Asad stamping his own philosophy and leadership style on the Syrian political economy and on Syrian society, the second *infitah* emerged in response to a serious economic crisis which began in 1986. The first *infitah* had been undertaken during a time of rapid economic growth and increasing standards of living, and had therefore had few, in any, negative effects for most Syrians. By contrast, the Syrian economy performed poorly in the 1980s,¹⁸ and that decade also witnessed profound changes in the international economic and political system, which were to have an equally profound impact on Syria.

The crisis of 1986 was predominantly one of foreign exchange and balance of payments, after many years of declining income from trade and remittances, growing government debt, low foreign investment, and a fall in oil prices, added to

¹⁷ On regime consolidation under al-Asad, see Derek Hopwood, *Syria 1945-1986: Politics and Society* (London: Unwin Hyman, 1988), chapter 4; and Hinnebusch (1990) *op. cit.*, chapters 5 & 6.

¹⁸ For a background to Syria's poor economic performance in the 1980s, see Volker Perthes, "The Syrian Economy in the 1980s", *Middle East Journal*, 46, 1, Winter 1992, pp. 37-58.

the problems of a rapidly growing population (3.4 percent per annum), and drought.¹⁹ The result was an economy in serious trouble, with a growth rate of only about 1 percent per annum in the mid-1980s — compared to around 10 percent per annum in the 1970s — and therefore the need for significant changes to the economy.

After 1986, a number of broad macro-economic reforms were made to the Syrian economy, including exchange rate reforms, trade liberalisation, an expansion of the private sector, price adjustments, and a reduction in government subsidies on commodities and utilities.²⁰ These changes, while not aimed directly at the tourism sector, did have some impact on it. The role of the private sector in tourism, especially in hotel and restaurant management, increased markedly during the life of the second *infitah*. Exchange rate reforms, especially those of 1993 which established a 'neighbouring countries rate' of S£42 to the US dollar — as opposed to the previous rate for tourists of S£11.25 to the US dollar — meant a 73 percent reduction in most, though not all, of the costs incurred by tourists while visiting Syria.

An important tourism reform of the second *infitah* was the 1986 Resolution 186 of the Supreme Council for Tourism, which increased the role of the private sector in developing tourism facilities in Syria. A number of private hotels and tour companies appeared at this time, and the late 1980s were also the period of most rapid growth for the Cham Palace hotel group.²¹ Resolution 186 allowed investors who were establishing a tourist facility to by-pass laws on the importation of raw materials, tools, and manufactured equipment — especially for the construction of luxury hotels and facilities — and to also gain exemptions and favourable treatment

¹⁹ On the crisis of 1986 and the second *infitah*, see Nabil Sukkar, "The Crisis of 1986 and Syria's Plan for Reform", in Kienle, *op. cit.*, pp. 26-43; Steven Haydemann, "The Political Logic of Economic Rationality", in Henri Barkey (ed.), *The Politics of Economic Reform in the Middle East* (New York: St. Martin's Press, 1992), pp. 11-39.

²⁰ *Ibid.*, pp. 32-36.

²¹ Author's interview Ms. Marie Rose Ghanem, Sales Representative, Cham Palaces and Hotels, Damascus, 5 June 1996.

on taxes and customs duties.²² As a result of improved facilities and a greater emphasis by the government on attracting foreign tourists, there was a moderate increase in the number of Western tourists which Syria received in the late 1980s, until the 1990-91 Gulf crisis broke out.²³

Perhaps the most significant reform of the second *infatih* was the promulgation of Law Number 10 of May 1991 for the Encouraging of (Productive) Investment,²⁴ aimed at increasing foreign direct investment in Syria. Specifically, the law allows a number of incentives for foreign direct investment which creates employment, is export-oriented, transfers technology or expertise, and is in excess of S£10 million.²⁵ The incentives attached to Law Number 10 include exemptions from the strict Foreign Exchange Law Number 24 of 1986, which placed severe restrictions on foreign currency transactions. Other incentives comprised customs and duties exemptions, exemptions from company taxes for up to seven years, and the freedom to repatriate profits overseas. The aims of Law Number 10 were to increase foreign direct investment in Syria, although the anticipated source of this investment is open to speculation. Whether the government's emphasis was really on foreign investment, or geared more towards the repatriation of funds held by Syrians overseas and investment from Arab rather than Western sources, has been a question of some controversy. Polling argues that Arab and expatriate Syrians "might well be the government's intention, as it is not keen to see the country inundated by foreign interests due to its political sensitivities and the vested interests of the establishment,

²² See the interview with the former Syrian Minister for Tourism Muhammad Amin Abu al-Shamat, in "wazir al-siyyaha al-suriyya Abu al-Shamat: khuttatuna istaqbal 3.5 milayin sa'ih al-'am 2000" ["Syrian Minister of Tourism Abu al-Shamat: Our Plan is to Receive 3.5 million Tourists by the Year 2000"], *al-Iqtisad wa al-A'amal*, Special Issue 'Tourism Without Borders', Year 16, March 1995, pp. 61-62.

²³ Christian Schneider-Sickert & Andrew J. Jeffreys for Oxford Business Guides, *The Oxford Business Guide: Syrian Arab Republic, 1995-6* (Surrey: Oxford Business Guide Publications, 1995), p. 35.

²⁴ al-Jamhuriyya al-arabiyya al-suriyya (Wizara al-Iqtisad wa al-Tijara al-Kharajiyya), *al-Qanun Raqn 10 li-Tashji' al-Istithmar* (Dimashq, 1991), [The Syrian Arab Republic, Ministry of Economy and Foreign Trade, *Law Number 10 for the Encouraging of Investment* (Damascus, 1991)], For an analysis of Law Number 10, see Polling (1994), *op. cit.*, pp 19-23.

²⁵ At the 'neighbouring countries rate' of S£42 to the US dollar S£10 million equates to a minimum investment of US\$238,095.

and because it implies an erosion of state control and sovereignty".²⁶

Regardless of the government's intentions in promulgating the law, its results have been mixed. Small and medium-sized businesses, and Syrian expatriates especially, have used the law to their advantage and have invested modest sums in different areas of the Syrian economy, including the tourism sector. Restaurants and medium priced hotels have been created or expanded as a result of the law, especially by those seeking short-term investments.²⁷ Equally prominent, however, have been abuses of the law, most notably in car rental companies.²⁸ Nonetheless, there have been important investment projects initiated under Law Number 10, in areas such as textiles and clothing, food processing, and chemicals and pharmaceuticals.²⁹ The most serious problem inhibiting foreign investment in Syria is the continuing uncertainty over Syria's foreign relations (especially the Arab-Israeli peace process), the failure to pass laws for the economy which are fair, predictable, and transparent, and uncertainty about Syria after Asad.

THE REGIME AND THE RELATIONSHIP BETWEEN ECONOMIC LIBERALISATION AND TOURISM

As discussed in Chapter Two of the thesis, there are particular reasons why governments throughout the world support the expansion of tourism: its potential to generate foreign currency, its labour intensive and employment generating nature, the fact that it does not, on the whole, require expensive or complex technology or a highly skilled workforce, and the fact that most states already have in place the basic requirements for the development of the tourism sector. These motivations are all

²⁶ Pölling (1994), *op. cit.*, p. 21.

²⁷ Author's interview with Ms. Jana Behrends, Delegation of the European Commission, Damascus, 5 June 1996.

²⁸ Under such schemes, an individual establishes a firm, buys a number of cars under the provisions of Law Number 10, and then leases them to relatives and friends, thereby evading the otherwise enormous taxes and duties on importing the vehicles. Author's interview with Mr. Zakwan Tinawi, Independent Syrian Businessman, Damascus, 20 May 1996 and 5 June 1996.

²⁹ Pölling (1994), *op. cit.*, p. 21.

applicable to Syria. The government's ambitious programme of tourism expansion — for example, to create 120,000 new jobs in the industry by the year 2000, and to receive five million tourists by 2010 — are an indication of this emphasis and the perceived economic benefits of tourism expansion.³⁰ But more specifically, several other reasons why the Asad regime is emphasising tourism are also important and warrant mention.

The first is that, unlike some other states such as Jordan, Syria's tourist attractions are plentiful, are spread throughout the country and are, for the most part, easily accessible. The sites which are most commonly visited by foreign tourists include the cities of Damascus, Aleppo and Hama, the Roman ruins in the desert at Palmyra, the Crac des Chavilliers in the rural central-west of Syria, the Euphrates river, the Mediterranean coast, and numerous small villages. As a result, foreign (and especially Western) tourists visiting Syria tend to be middle aged, stay longer in Syria than in many other states, have high incomes, travel in groups, and are usually interested primarily in the historical and cultural attractions of Syria. So although Syria receives relatively few Western tourists, perhaps as few as 100,000, these tourists are very lucrative and spend their money throughout the country. The economic development of rural Syria has in fact been a major goal of successive Ba'athist regimes, including Asad's, and may account in part for the emphasis placed on tourism.³¹ Further evidence that the regime would like to include rural economic growth in its tourism agenda is provided by former Minister of Tourism al-Shamat, who stated in 1995 that the regime's primary tourism goals included "Encouraging new styles of tourism such as ... winter and desert tourism ... Celebrating tourism festivals in all seasons, especially the Syrian Steppe Festival ... Encouraging popular and youth tourism..."³²

³⁰ On these goals, see the *al-Iqtisad wa al-A'mal* interview with the former Syrian Minister for Tourism Muhammad Amin Abu al-Shamat, *op. cit.*, pp. 59-62.

³¹ On Ba'ath agrarian policies and the emphasis on rural development, see Raymond Hinnebusch, *Peasant and Bureaucracy in Ba'athist Syria: The Political Economy of Rural Development* (Boulder: Westview Press, 1989); Hinnebusch (1990), *op. cit.*; and Perthes (1995), *op. cit.*, chapter 3.

³² *al-Iqtisad wa al-A'mal* interview with Muhammad abu al-Shamat, *op. cit.*, pp. 61-62.

A second factor is the politically safe nature of tourism. There are few members of the regime with vested interests in, or against, tourism,³³ unlike sectors such as agriculture or industry. Further, tourism is politically safe because tourists themselves pose little threat to the stability or popularity of the regime. There is little evidence that tourists, especially 'package' or guided tourists, make a substantial impact on the politics of the host society. In fact more often than not tourists are kept away from the people in the host state, except for brief, orchestrated meetings such as in the souq.³⁴ The taking of photographs which depicted Syria as an underdeveloped state, or which contained political overtones, is strongly discouraged.³⁵

Finally, the private sector is relatively eager to enter the tourism sector; investment projects in transport under Law Number 10 between May 1991 and the end of 1992 accounted were the largest category of investment (46 percent of the total value),³⁶ and at May 1996 tourism and transport remained prominent and "there is unanimity that the potential is enormous — especially in tourism ..."³⁷ The private sector's willingness to invest and participate in tourism finds its source in several characteristics of the industry and its treatment under Syrian law. Apart from the obvious financial advantages under Syrian liberalisation laws, and the potential for Syrian tourism to greatly expand over the coming years (its growth rate between 1986 and 1993 was an impressive 19.6 percent per annum),³⁸ the private sector is also attracted to tourism by the ease with which the sector can be entered. Start-up times for tourism projects are shorter than for industry, returns are greater than for

³³ This point is made in Pölling (1993), *op. cit.*

³⁴ One study highlighted this in the case of Egypt, and many of the Egyptian characteristics can be equally applied to Syria or other developing states. See Tim Mitchell, "Worlds Apart: An Egyptian Village and the International Tourism Industry", *Middle East Report*, 196, September-October 1995, pp. 8-11, 23. See especially the subsection entitled 'Enclave Tourism', p. 9-10.

³⁵ Most guidebooks to Syria contain a warning to this effect, and it is routine for guided tourists to be advised of this by their guides.

³⁶ Polling (1994), *op. cit.*, p. 21.

³⁷ Alan George, "No Going Back", *The Middle East*, November 1996, p. 20.

³⁸ E. Riordan et al., "The World Economy and Implications for the MENA Region", *ERF Working Paper Series*, Working Paper Number 9519 (Cairo: ERF, 1995), p. 23, Table 9.

agriculture, and less specific skills are required to manage tourism projects compared with other sectors.

There may also be a sense of 'trendiness' with tourism among the private sector investors, although the long-term growth in tourism projects would suggest otherwise. This point, however, was made strongly by several people interviewed in Syria. The suggestion was that 'trendiness' can be measured by the investments of Asad's immediate family and closest associates, who are currently expanding their holdings rapidly in tourism enterprises, especially in restaurants in the old city of Damascus.³⁹ The regime may be attempting to take advantage of this 'trendiness' by liberalising tourism (and may be responsible in part for its image as 'trendy') to increase economic activity in, and government income from, tourism. Alternatively, of course, the regime may have come under the 'trendiness' spell itself.

The regime's motivations in liberalising and encouraging tourism, therefore, are many, and find their sources in Syrian politics, political economy, and society. Equally important in explaining the relationship between liberalisation, however, are the actions and approaches of actors and forces outside of the regime.

The regime's policy of liberalisation — and liberalisation has been, to date, largely state-led — is the result of three broad changes in Syrian politics, economics, and society during the Asad period. These are the economic short-comings in SLD and ISI⁴⁰ (felt most in the economic crisis of the mid-1980s),⁴¹ changes in the structure of Syrian society, especially the growth of the middle- and professional classes, and the international changes of the 1980s and 1990s and their impacts on Syria and the Asad regime. These events, severally or in combination, induced changes in the regime's outlook, its legitimacy at home and abroad, and in the

³⁹ Author's interview with Ms Jane Urquhart, Second Secretary, Australian Embassy, Damascus, 20 May 1996 and 23 May 1996.

⁴⁰ *Ibid.*, 100-101.

⁴¹ Many of these observations are also based on the author's interviews with Mr Zakwan Tinawi, independent Syrian businessman, Damascus, 20 May 1996 (on the taxation system); Ms Jana Behrands, Delegation of the European Commission, Damascus, 5 June 1996 (on foreign investment and economic restructuring in Syria); and Mr Jamie Banks, British Trade Attache to Syria, Damascus, 29 May 1996.

public-private sector balance of power.

Despite a lingering debate over whether Asad and his inner circle are serious about liberalisation, it has become generally accepted that Asad and several of those at the top of the regime are willing, if not eager, to liberalise the economy and open it to the private sector, while at the same time attempting to control the political system and avoid, as far as possible, any political liberalisation. In other words, Asad has adopted an economic policy of *infitah*, leading to *ta'addudiyya*, and mixed with a political policy of "calculated decompression".⁴² Within the state apparatus, of course, there are forces opposed to liberalisation — elements of the bureaucracy, managers of state owned enterprises (SOEs), and some Alawi elites, for example — and Asad has also been cautious in protecting the social bases of his regime. In general, however, the centralisation of power, the patrimonial structure of Syrian politics, and the weakness and lack of cohesion of opposition groups has, to date, limited the political capacities and abilities of those who oppose liberalisation.

Also contributing to the emergence of economic liberalisation were changes in the social structure of Syria, which affected the regime's legitimacy, the pressures on it for reform, and the options open to it if it indeed decides to initiate reform. The regime of Hafiz al-Asad emerged, according to Hinnebusch,⁴³ as an authoritarian-populist regime, with a strong patrimonial leadership at its political core. By the early 1980s, Asad and his regime entered Hinnebusch's post-populist phase, in which it sought "stabilization and accommodation with powerful interests and [began] limited liberalization which re-open[ed] political access for the dominant classes".⁴⁴ Such a transformation in the structure of the regime would see it, in Waterbury's 'matrix of state logic', as moving from autonomous-benevolent (where it acts largely without bias to the social forces of society in furthering development) to the category of instrumental-malevolent, where the state re-emerges as an ally of the dominant

⁴² Raymond A. Hinnebusch, "Liberalization in Syria: The Struggle of Economic and Political Rationality", in Kienle, *op. cit.*, pp. 97-113.

⁴³ Hinnebusch (1990), *op. cit.*, chapter 1.

⁴⁴ *Ibid.*, p. 2.

classes.⁴⁵ Another way of viewing the transformation, especially in light of recent events in Syria, is that the regime is seeking a political balance of power in society; between public and private economic sectors and between various class interests, with the aim of broadening its economic base of support and its political base, and reducing the strength of opposition. The introduction of economic elites into the periphery of Asad's network is an example of this.

Finally, changes in international politics during the late 1980s and early 1990s made an important contribution to the decision to further liberalise the economy; in particular, the collapse of the Soviet Union and the Eastern Bloc.⁴⁶ The Soviet Union and the Eastern Bloc had, until the mid-1980s, been Syria's principle source of foreign aid, loans, and other support. The late 1980s and early 1990s also witnessed the end of the Iran-Iraq war, the 1990-91 Gulf war, and the commencement of an Arab-Israeli peace process.⁴⁷ With the collapse of authoritarian regimes in Eastern Europe — Ceaucescu in Romania and Honecker in East Germany in particular — "an analogy could easily be drawn ... between [these] regimes and that of Assad".⁴⁸

A similar feature between the two *infitah* periods is the attempts by Asad to use economic growth and improved standards of living for political ends — to encourage social calm, reduce the potential grievances of opposition groups and their supporters, and to increase the regime's legitimacy in the eyes of its citizens. The nature of economic liberalisation in Syria points to this; the gradualistic and reactive reforms initiated, usually too little too late, to address immediate and serious problems, with attempts, since the parliamentary elections of 1990, to smooth

⁴⁵ John Waterbury, *Exposed to Innumerable Delusions: Public Enterprise and State Power in Egypt, India, Mexico, and Turkey* (Cambridge: Cambridge University Press, 1993), p. 17. For more details on Waterbury's ideas, and his 'matrix of state logic', see chapter III of this thesis.

⁴⁶ On this point, see Fred H. Lawson, "Domestic Transformation and Foreign Steadfastness in Contemporary Syria", *Middle East Journal*, 48, 1, Winter 1994, pp. 47-64.

⁴⁷ Itamar Rabinovich, "Stability and Change in Syria", in Robert B. Satloff (ed.), *The Politics of Change in the Middle East* (Boulder: Westview Press [with The Washington Institute for Near East Policy], 1993), pp. 11-29.

⁴⁸ *Ibid.*, p. 18.

relations between the state and society and create the perception of some political change being under way.

The political aims of economic liberalisation have also included an attempt to diversify, while still retaining considerable control over, the important economic classes and groups in Syrian society. The (slightly) expanded role of the parliament is one such example, where many new independent members elected in 1990 came from the business community. Coupled with the expansion of Asad's patrimonial network to include some key business elites, and the moves by many businessmen to expand their contacts with political elites, there appears to be emerging what Waterbury terms the "public-private symbiosis".⁴⁹ This is essentially an informal agreement between the political elite and the business elite that the former will provide the conditions for the prosperity of the latter, on condition that business people do not seek an expanded political role for themselves or attempt to overtly influence the decision-making process. For the regime, private sector successes and their economic rewards can be utilised for political purposes; higher standards of living and increased taxation revenue can be applied to the regime's politically-oriented development priorities. Tourism enjoys a priority in this symbiosis because of its politically-safe nature to the regime, as well as its ability to generate hard currency and employment.

Such a change indicates the emergence in 1990s Syria of post-populism, with the regime balancing the forces in society. The Asad regime has moved beyond the simple concept of a revolutionary government to embrace and include various social forces, including those which previously, as a revolutionary regime, it would not have. Hence the policy of *ta'addudiyya*. To be sure, liberalisation is also a response to social changes and not merely an attempt to politically engineer it, but less so in Syria than in many other states of the Middle East.

The regime's disinclination to allow external involvement in its liberalisation

⁴⁹ Waterbury, *op. cit.*, chapter 8. A similar idea is also briefly discussed in Perthes (1995), *op. cit.*, pp. 254-257.

programme is also telling of Asad's aims and motivations. The World Bank and International Monetary Fund (IMF) are almost completely absent from Syria's reform process, indicating that Asad wants to maintain as much control as possible over the pace, depth, and breadth of economic liberalisation, and also wishes to retain the patronage he enjoys as an economic benefactor in society — a position which many other Arab leaderships have surrendered in the process of liberalisation.⁵⁰ Further, Perthes argues that another reason for the absence of the World Bank and IMF in Syrian liberalisation is that it enables the regime "to bolster its national credentials among the medium and upper echelons of the bureaucracy, party functionaries, parliamentarians and trade unionists".⁵¹

With the role of the state having been expanded under the Ba'ath, including under the early period of Asad's rule when he attempted to build the institutions of government and consolidate his position, the state's position in the Syrian political economy expanded to include purview over the tourism industry. Given that the Asad regime is arguably the key actor in both liberalisation and tourism, in what ways does the regime constitute a link, or an element of the relationship, between these two phenomena?

As mentioned earlier, the state's motivations can be partly traced to the economic benefits of tourism. Perthes argues that the liberalisation of tourism in the first *infitah* was designed to deliver "quick returns",⁵² and that the regime was consolidating its position by attempting to gain favour with the private sector and make it known that the regime was willing to dole out economic favours to selected individuals. In contrast, it is interesting that the second *infitah* was most liberal to the tourism sector during a time of economic constraint and hardship, when the regime was particularly short of rentier income. Although tourism does not technically fall into the category of a rentier industry, many of its characteristics are not dissimilar to

⁵⁰ Perthes (1995), *op. cit.*, p. 251.

⁵¹ *Ibid.*, p. 251.

⁵² Perthes (1995), *op. cit.*, pp. 51-52.

a rentier industry. This would suggest that an emphasis on both liberalisation and tourism during times of state financial austerity, including the direct liberalisation in the tourism sector, may be an attempt to bridge the financial gap between income and (social and development oriented) spending being suffered by the state. The part-privatisation of tourism (by allowing private management and private firms to operate on government property), the emergence of a public-private symbiosis, the emphasis on large foreign (read: hard currency) investments, and the reluctance to unify Syria's exchange rates all point to this possibility.

Further, tourism contributes to traditional industries that otherwise may not be viable. Few tourists visit any country — Syria included — with buying a souvenir or memento, and Syria in fact has become a popular shopping destination, particularly for nationals of Russia and the former-USSR, Iran, and Western Europe. As a mode of development, with positive economic and political implications for the regime, Miyoko Kuroda argues that traditional industries may provide an area in which 'late developers' often have a comparative advantage and in which they usually excel.⁵³

The political benefits of expanding the tourism sector, and the relatively few drawbacks, have also been of importance. The liberalisation of tourism has allowed new economic elites and an expanded private sector and middle class to emerge, which are reliant on tourism and, because of favourable treatment in the liberalisation programme, loyal to the regime. Certain core elite members loyal to the government — Nahas, Aidi, and Attar in particular — all have major holdings in tourism projects, and in Aidi's case it is his main area of activity. Tourism growth benefits the merchants of the souqs and small business people involved in restaurant, hotel, and transport businesses throughout the major tourism areas of Syria.

The role of these, and other, extra-state actors and forces in both economic liberalisation and tourism has been considerable. Certain of these actors have been

⁵³ See Miyoko Kuroda, "Economic Liberalization and the *Suq* in Syria", in Niblock & Murphy, *op. cit.*, pp. 203-213.

particularly prominent in Asad's Syria, and warrant further and more detailed discussion.

NON-STATE ACTORS AND FORCES AND THE RELATIONSHIP BETWEEN ECONOMIC LIBERALISATION AND TOURISM

The relaxation of political control over economic activity, and a broadening of the social bases of the regime and its institutional constituents, has simplified economic activity and complicated the political equation in Syria. The social manifestations of economic changes have all come to be links between liberalisation and tourism: the emergence of business elites, the growth of the private sector middle class, the increasing institutionalisation of political lobbying on economic matters, and the changing methods of opponents to economic liberalisation. The place of these groups in the political economy of contemporary Syria, and their connection to the economic policy-making process, is an indication of their importance as a link between economic liberalisation and tourism.

The Business Elites

In the Syrian economy generally, and in the tourism sector most conspicuously, a handful of wealthy businessmen have come to prominence under the Asad regime; most notable are Sa'ib Nahas, Uthman Aidi, and Abd al-Rahman Attar. The relationship between these men and the Asad regime is symbiotic — although given the patrimonial system of leadership in Syria, Asad generally remains dominant over his businessmen clients.

Sa'ib Nahas,⁵⁴ a Shi'a businessman, entered the tourism industry in 1965,

⁵⁴ The following information on Sa'ib Nahas' career and business interests is drawn from Polling (1994), *op cit.*; "Rajul al-Mu'sasat Saib Nahas: al-Siyaha tahtaju ila mal wa rijal wa thiqa" ["Man of Business Enterprises Sa'ib Nahas: Tourism Needs Funds and Men and Confidence"], *al-Iqtisad wa al-A'mal*, Special Issue "Tourism and Prospective Peace", Year 18, May 1996, pp. 50-52; and

when he established 'Nahas Travel and Tourism', a company which represented the East German airline Interflug in Syria; Nahas having gained business contacts in East Germany after he first began his career in his father's textile company. Nahas Travel and Tourism subsequently expanded its airline representation activities, and also organised tours abroad for Syrians, and inbound tours for Arab and Western visitors. The most important step for Nahas was Law Number 41 of 1978, which established TRANSTOUR, a joint-sector firm involved in several tourism areas. One is transportation, especially limousine and car rental under the trading name 'Europcar'. Another is in tourism marketing, and the organisation and delivery of tours and organised travel in Syria. By the late 1980s, it was the largest tour company in Syria. Finally, TRANSTOUR undertakes tourism investment projects, including the designing, financing, and building tourism infrastructure such as the al-Sayedah Zeinab complex, a 4-star resort at Amrit, and resorts, hotels and other facilities in tourism areas such as Palmyra. A branch of TRANSTOUR also manages hotels and facilities owned by the government. TRANSTOUR is the largest and best-known tourism firm in Syria, with the possible exception of Uthman Aidi's Cham Palaces and Hotels firm.

Uthman Aidi's Arab Syrian Company for Touristic Establishments (ASCTE) — the first mixed sector company to be established — came into existence through Law 56 of 1977.⁵⁵ The Cham Palace group of hotels was then established in 1983. Most of Cham's hotels, which now number seventeen and supply some 7,530 beds,⁵⁶ were built between 1987 and 1990 after the government surrendered its monopoly in the construction industry. Polling provides a number of examples of hotels being constructed quickly — in less than twelve months — after the government had spent

author's interview with Ms. Mary-Evany Sarafian, Manager for Public Relations and Consular Affairs, Nahas Enterprises, Damascus, 22 May 1996; and a detailed brochure issued by Nahas Enterprises which outlines the history and activities of Nahas's firms.

⁵⁵ Pölling (1994), *op. cit.*, pp. 16-17.

⁵⁶ "al-Sham li-al-finadiq: al-Sharaka al-Funduqiyya al-Ra'ida fi al-a'lim al-Arabi" ["Cham Hotels: The Leading Hotel Company in the Arab World"], *al-Iqtisad wa al-A'mal*, Special Issue 'Tourism Without Borders', Year 16, March 1995, pp. 39-42.

years on construction efforts in housing and hotels.⁵⁷ One unique feature of the ownership of the Cham Palace hotels is the fact that about 10 percent of stock is owned by company employees (some 6000 shareholders out of a total of more than 19,000), "in what can be described as a unique experiment in popular capitalism".⁵⁸ Cham Palaces has increased its value fifty-fold since its establishment, and supplies about 80 percent of Syria's four- and five-star hotel beds. The company is currently planning to expand into Lebanon and Sudan.⁵⁹ Aidi, a Sunni, is probably the wealthiest entrepreneur in the Syrian tourism industry, and is often considered the most prominent and influential.

Less prominent but nonetheless important is Abd al-Rahman Attar, a Sunni with interests in two 4-star Damascus hotels, the Carlton and the Fardoss Tower, and in the 'Orient' tours and car rental company. He is active in the Syrian and Damascus Chambers of Commerce.⁶⁰ There are also some smaller, but substantial, business actors in the tourism industry, especially in hotel ownership and management, and car rentals.

Nahas, Aidi, Attar, and the other key businessmen and bourgeois elites form an important part of what Syrians refer to as *al-tabāqa al-jadida*, or 'the new class'.⁶¹ These new Syrian business elites have certain characteristics which distinguish them not only from other classes in society, but from other elites as well. Their upward social mobility from merchant or bourgeoisie class to elite or upper class has usually been sponsored by Asad, or occasionally by a political actor very close to the president. Few are members of the old elite families of pre-revolutionary Syria; their predominantly Sunni make-up is indicative of their urban, merchant backgrounds.

The symbiotic relationship between Asad and the new class answers several

⁵⁷ Pölling (1994), *op. cit.*, p. 17.

⁵⁸ *Ibid.*, p. 17.

⁵⁹ Author's interview with Ms. Marie Rose Ghanem, Sales Representative, Cham Palaces and Hotels, Damascus, 5 June 1996.

⁶⁰ Author's interview with Mr. Jamie Banks, British Trade Attache to Syria, Damascus, 29 May 1996.

⁶¹ Volker Perthes, "The Bourgeoisie and the Ba'th: A Look at Syria's Upper Class", *Middle East Report*, 170, May-June 1991, p. 31.

questions about tourism and liberalisation in Syria, and the link between the two.⁶² The most important point (which also allows the relationship between elites to be categorised as symbiotic) is that Asad and the new class exchange both resources and services in which the other possesses a deficiency. The government maintains a virtual monopoly on political decision-making in society, and often has considerable control over social mobility. Changes in Asad's power base over time, his need to incorporate economic growth and development into his political resume after the failure of SLD and ISI, and the need for solidarity and cohesion beyond that created by blood ties are all motivating forces behind Asad's willingness to nurture and build relationships with the business elites. In turn, business elites owe their position, and their future, to Asad. In a state where deficiencies in SLD and ISI have led to the transformation to post-populism, the private sector, and key business elites in particular, "are being invited ... to provide the dynamism and to stimulate the growth that their economies lack".⁶³ In such a situation, the state provides unparalleled opportunities for the key entrepreneurs; in the case of Syria, by providing entry into previously closed fields of activity, and providing monopoly, or oligopoly, business conditions. This explains the enshrining into law of TRANSTOUR and ASCTE, rather than the complete or competitive liberalisation of the tourism sector at that time, which meant that prices and profits were, and remain, high, and that the businessmen, in turn, rely on Asad for the continuation of their privileged position.⁶⁴

Besides the threat of losing their position, the political behaviour of these businessmen is kept in check in two other main ways. First, the regime informally places limits on the length to which business elites can influence policy. On occasions when a businessman oversteps his political bounds, he is usually arrested

⁶² Certain of the following ideas are based loosely on the concepts developed by S. N. Eisenstadt and L. Roniger in their book *Patrons, Clients and Friends: Interpersonal Relations and the Structure of Trust in Society* (Cambridge: Cambridge University Press, 1984), especially pp. 48-49.

⁶³ Waterbury, *op. cit.*, p. 212.

⁶⁴ See Pölling (1994), *op. cit.*; "Suriyya: Ihtimam A'ali" ["Syria: Global Concerns"] in the article "Finadiq al-Sharq al-Awsat: al-Khassa al-Akbar li-Safar al-A'amal" ["Middle East Hotels: The Greatest Contribution is to Business Travel"], *al-Iqtisad wa al-A'amal*, Special Issue 'Tourism Without Borders', Year 16, March 1995, p. 30.

or finds the official press branding him as a profiteer or as corrupt. Aidi, Nahas, and Attar were all arrested in 1977 after a campaign against corruption. In reality, the campaign was most likely intended as a warning to these businessmen, who had grown wealthy quickly, not to translate their wealth into political power or aspirations. That their arrests had little long-term impact on their positions, and that many have been arrested several times, is indicative of a 'carrot and stick' approach by Asad to his relationship with these individuals. As recently as 1996, Aidi was accused of corruption, although an encroaching limit on the regime is the fact that the regime cannot be seen to act capriciously or to be hostile to wealthy actors in the economy, especially given the need to attract investment.⁶⁵

The regime also maintains some control over these elites by allowing them to discreetly, and within limits, behave illegally, and by extending them exemptions to laws which are still technically in place. It is known, for example, that Nahas and many other business elites have involved themselves in smuggling and other illegal activities, which they are able to do because of their informal contacts with political elites in the Ba'thist regime.⁶⁶

The regime also maintains control over business actors by allowing them concessions to certain laws. Sa'ib Nahas has boasted that Asad has given him permission to dismiss staff at will, despite the extremely strict labour laws which protect staff from arbitrary dismissal.⁶⁷ Some of these concessions are granted because of the government's involvement in, and support for, joint sector firms — hence the lenient labour laws for many of those enterprises — although in the case of Nahas it extends further than just the joint-sector TRANSTOUR.

Favours such as these place businessmen in a position where loyalty and

⁶⁵ Author's interview with Mr. Zakwan Tinawi, Independent Syrian Businessman, Damascus, 20 May 1996 and 5 June 1996.

⁶⁶ Perthes (1991), *op. cit.*, pp. 35-36.

⁶⁷ Author's interview with Mr. Jamie Banks, British Trade Attache to Syria, Damascus, 29 May 1996. These labour laws mean that, with the exception of some joint sector enterprises, permanent employees can only be dismissed in very extreme cases such as bankruptcy of the firm or theft by the employee.

assistance to the regime have been rewarded with gifts that can easily be retracted, and in the case of illegal activities, in a situation where the businessman can be punished by law if he falls from favour with the regime. At the same time, however, the business men usually protect themselves from attacks such as that of 1977 by establishing joint sector firms with the government. These public-private enterprises represent a relationship between the businessmen and the regime, and between the businessmen and the public sector more generally. For the bureaucracy, which often plays a role in organising many of the opportunities seized by the businessmen, joint sector enterprises are an opportunity for some individuals to venture into the profitable private sphere, while also delivering economic growth and political benefit to the regime.

Politically, the business elites cannot act overtly to encourage liberalisation. Many of them, such as Aidi and Nahas, constitute a link between liberalisation and tourism, as they assist the Asad regime in directly liberalising tourism, and in expanding tourism as a result of broader liberalisation. For the sake of its own position, however, the regime places restrictions on the political activity of the business elites, making informal networks of patron and client the outer limit of the business elites' impact on economic and political policy-making.

The Private Sector Middle Class

If the business elites are constrained in their political impact on the Syrian regime, the middle class are even more so. Despite an expansion in the size of the middle class, there remains some political distance to travel before a genuine civil society, including the institutions necessary for its political functioning, can be said to exist in Syria. Nonetheless, the components of the Syrian middle class are important actors, individually but especially in concert, in and between both liberalisation and tourism.

Key middle class support for both liberalisation and tourism has come from the private sector middle class: the merchants, the small businessmen, craftsmen, and other self-employed entrepreneurs and professionals. The growth in the private sector middle class under Asad, and especially in the past fifteen years, has been quite marked; "Between 1970 and 1991 ... from 140,000 to around 410,000 economically active persons and their families ... from around 9 percent to 11 percent [of total population]."⁶⁸ The greatest growth has been in trade, transport, and services, not in manufacturing or industrial activity.

Support for economic liberalisation from among this group is found in their conservative orientation; conservative in both the social and economic senses. In the urban areas of Syria, they have maintained their links with religion, and overwhelmingly, whether Sunni or Shi'a (though far more often the former), are identified with, and active in, a local mosque. Many have a family history of working as merchants or self-employed businessmen, and often view the Ba'ath era as a short period of government involvement in a society which has otherwise had a long history as a liberal economy.

The views of this group towards tourism is less clear. The socially conservative orientation of traditional merchants might indicate that this group has a propensity to oppose (or at least be wary of) tourism, however the number who rely on, or benefit from, tourism is great enough that they have not mounted any significant opposition to tourism. The structure of tourism in Syria, especially the fact that only 3-4 percent of visitors are the typical Western sightseer, is also important: at present, Western tourists are often quite isolated from the host society by tour guides and schedules, and are too small in number to have any significant impact on Syrian social or cultural values.

The merchants and craftsmen have little direct influence on the economic policy-making process in Syria, but have a more significant impact in other, more

⁶⁸ Perthes (1995), *op. cit.*, p. 101.

indirect ways. The only direct influence which is utilised is through regime consultation with chambers of commerce and industry, or through the parliament, in both of which the private sector middle class features quite prominently, along with the larger industrialists and *al-tabaqa al-jadida*. Some political activity is undertaken on behalf of — or simply suits — the middle class by the new business elites. For example in 1993 Sa'ib Nahas was interviewed on Syrian radio, which "in a highly symbolic interview ... allow[ed] him to speak for almost an hour ... about the private sector, its performance and its advantages".⁶⁹ The relationship between elements of the private sector middle classes and the business elites through institutions such as chambers of commerce and industry, and through an economic relationship between the two groups, converges their political and economic interests, and also makes the middle class merchants and businessmen reliant upon both liberalisation and tourism for their prosperity. The relationship also forms a mode of communication between the government and the middle class, where dialogue between the two takes place via the business elites.

To a certain extent, liberalisation represents the changing profile of Syrian society and the regime's role within it. During the 1980s there was a gradual erosion in the regime's support from its traditional classes, especially the working class and the rural peasantry. There was some deterioration in support from the salaried middle class, perhaps in response to the perceived economic imbalances of economic liberalisation. Although the Ba'ath has made considerable progress in the development of Syria — in education, employment, health, and in standards of living generally — some groups have been dissatisfied with the rate of progress on economic policy. Many of the beneficiaries of state socialism have sought a greater consolidation of government and economics, while some members of the long-suppressed private sector have seen their decline and isolation coming to end, and have often wanted to expedite economic reform.

⁶⁹ *Ibid.*, p. 236.

Despite this, the private middle class and upper-middle class remain too weak to organise an orchestrated strategy towards economic, much less political, liberalisation. The early Ba'ath party infrastructure, bureaucracy, military, and informal patron-client relations are far too strong. Further, many members of the middle class are appreciative of Asad for stabilising Syrian politics, and for controlling Islamic elements in society — the instability of political pluralism has kept some members of the middle class loyal to Asad, even if they have some complaints about the regime.

The public-private symbiosis mentioned earlier applies, in a slightly different way, to the regime's relationship with the middle class and the elements of civil society. As Asad envisages the greatest middle class threat to his political position as coming from the private sector, he has increasingly taken their economic views into account, for example through syndicates, chambers of commerce and industry, and government committees. At the same time, however, they have been kept out of politics directly. In exchange for a continued, gradual liberalisation of the economy, the bourgeoisie seems to have informally surrendered any political aims they may have also had.

Opposition to Economic Liberalisation and Tourism

In contrast to the merchants, professionals, and small industrialists, the public sector middle class has built its position on the bureaucratisation of the Syrian economy and society under the Ba'ath, and is wary of economic liberalisation or of a retreat of the state. Although there is considerable debate about the motivations and positions of bureaucrats, especially managers and politically-oriented public servants, most have gained their position by operating in a highly étatist political economy. A distinction between *politicos* and *technicos* offers some insight into the public sector role in the political economy. At its pinnacle, the bureaucracy is led by

politically aware and astute bureaucrats, or politicians, who rely on the work of technicos — engineers, accountants, professionals, and public sector intellectuals — for their performance and business or departmental expansion. Movement from technico to politico is possible, as long as the individual can quickly gain the political skills necessary for success. Equally possible for public sector and SOE managers, even some technicos, is to become involved in illegal or parasitic activities to supplement their salaries, which has become a serious problem in Syria.

Because of the informal and patronage-based political system in Syria, bureaucrats have had a difficult time establishing any formal and united opposition to liberalisation.⁷⁰ Many public sector employees, furthermore, owe their position to the Ba'ath regime's expansion of the bureaucracy during the 1960s and 1970s, and gained entry into the public sector because of the regime's desire to consolidate its support.⁷¹ For this reason, the debate between the 'reformers' and the 'socialists' in the period 1977 to 1983 excluded all but the most senior bureaucrats, and was mostly between members of institutions such as the Ba'ath party, the military, and the cabinet. This debate has highlighted not only the problems for the bureaucracy in influencing government policies, but is an important reason for the gradual dominance of the reformers and the introduction and expansion of economic liberalisation in Syria and elsewhere. Although senior bureaucrats share common backgrounds, approaches, and political orientations — in fact, they appear to form a unique category of actors — they are remarkably weak politically. This is due to several characteristics: they have no formal lobbying association; their activities in other institutions are limited; they tend to be career managers who may not leave a particular industry, much less the public sector; and they are in conflict, not unity, with other members of the middle classes who often support liberalisation and a reduction in the public sector.⁷² While virtually all of Syria's senior bureaucrats have

⁷⁰ This has been a common difficulty for members of the bureaucracy throughout the Middle East and the developing world. See Waterbury, *op. cit.*, chapter 6.

⁷¹ Perthes (1995), *op. cit.*, p. 106.

⁷² *Ibid.*, pp. 187-189.

been vehemently opposed to a reduced role for the public sector, and have resisted reforms to SOEs, their power has been further weakened by a bureaucratic culture which discourages accountability, and the (common) feature of inefficiency and outdated — mostly Soviet — management styles and concepts. As one observer interviewed by the author in Syria cynically put it, "The public sector elite here have all been taught by the USSR's best management schools!"⁷³ Nonetheless, by virtue of their size and contacts with the 'socialists' of the Ba'ath party, they remain a force of opposition to liberalisation.

The public sector approach to tourism has been limited by the small proportion of the bureaucracy which has taken an interest in it. The Ministry of Tourism not only supports the tourism industry (obviously!), but is one of the few departments to be comparatively sympathetic to liberalisation as well. Other departments have either taken no interest in tourism, or have quietly opposed it because of its growing prominence over other sectors which they represent or in which they have an interest, such as heavy industry.

ECONOMIC LIBERALISATION AND TOURISM: INTERNATIONAL FACTORS

There are a number of international factors which have had an influence on economic liberalisation and tourism and on the relationship between the two. A cursory glance at the tourism statistics for Syria shows that tourism numbers have been greatly affected by regional events, as has been the case with Egypt, Jordan, and the other states of the region.

More specifically, several recent events have influenced the pace and course of economic liberalisation in Syria, and its ability to develop and expand its tourism industry. The first, and perhaps most important event for economic liberalisation,

⁷³ Author's interview with Mr. Jamie Banks, British Trade Attache to Syria, Damascus, 29 May 1996.

was the collapse of the Soviet Union and the Eastern Bloc, including the dissipation of Soviet financial and ideological support for Syria, the end of the Cold War, and the resulting hegemony of the United States in the Middle East.

The salient issue of Hafiz al-Asad's foreign policy, since coming to power, has been the Arab-Israeli conflict. Although Syria lacks the financial and military potential to directly and solely challenge Israel, Asad spent the early years of his presidency attempting to cultivate relations with other Arab states, and with external powers, to enhance Syria's strategic position. Despite Asad's early ambition to move Syria closer to the West, Syria in fact was a Soviet ally during the 1970s and 1980s, and also received financial support from the Gulf states during the 1970s towards Asad's attempt at military and strategic parity with Israel.

Syria became one of the Soviet Union's principal clients in the Arab world under Asad; Moscow's financial aid and loans were significant in this period, much of it spent on military modernisation and expansion. Between 1982 and 1989, Syria received approximately US\$14 billion in Soviet arms,⁷⁴ much of it on favourable financial terms. Soviet backing for the Asad regime, and support for development and non-military projects, was also substantial. By the late 1980s, however, Soviet support began to rapidly dry up. In 1987, Gorbachev started to reduce the assistance offered to Syria, and rejected the idea that Syria should seek military parity with Israel. Alluding to an end to Soviet military assistance to Syria, in 1989 the Soviet ambassador stated that "if there are any changes [in military assistance], they will be in favour of reductions ... [because] the Syrian government's ability to pay is not unlimited".⁷⁵ At this time, Soviet relations with Israel were improving, peace between Israel and Jordan was being pursued with US support, and the Iran-Iraq war had ended in 1988, none of which events impressed Asad. As the Eastern Bloc collapsed in 1989, Asad's position seemed more uncertain, given the parallels drawn

⁷⁴ Alasdair Drysdale, "Syria since 1988: From Crisis to Opportunity", in Robert O. Freedman (ed.), *The Middle East after Iraq's Invasion of Kuwait* (Gainesville: University Press of Florida, 1993), p. 280.

⁷⁵ *Ibid.*, p. 280.

between him and some Eastern European leaders such as Ceaucescu, who met an unpleasant demise. The withdrawal of Soviet support to Syria pushed Asad into pursuing closer ties with the United States, especially in the period 1989 to 1991.

The collapse of the Soviet Union and its support has had several impacts on Syria. One is the loss of financial support itself, which has forced Syria to undertake at least some liberalisation of its economy.⁷⁶ Another has been the calls for the repayment of debts. Russian requests for the repayment of Syria's debts, which are thought to total about US\$12 billion,⁷⁷ are a source of some friction in Syrian relations with Russia, as are debts outstanding to the European community. Another debt with a more direct impact on the tourism is that owed to Iran — totalling about US\$2 billion — which is being repaid in part by Syrian subsidies to Iranian pilgrims and visitors. This agreement involves Syria covering some of the main costs incurred by Iranian visitors during their stay, such as accommodation and transport.

The Soviet and Eastern European need for foreign investment and international assistance has also had an impact on Syria, drawing away valuable international investment to the former-Eastern Bloc.⁷⁸ Given a capital shortage, the perceived instability of Syria (especially without a peace agreement of some description with Israel), and the attractiveness of the Eastern Bloc for foreign investors, Syria has had considerable difficulty in finding substantial foreign investment. Thus a motivation for the state to introduce Law Number 10, although even under this law most investment projects in Syria are valued at less than US\$10 million.⁷⁹

The dominance of the United States in the Middle East after the Cold War has placed Syria under growing pressure to liberalise its economy, and to a lesser extent to undertake further political liberalisation as well. Syria has largely resisted

⁷⁶ See Rabinovich, *op. cit.*; Lawson, *op. cit.*; and Heydemann, *op. cit.* for details.

⁷⁷ Schneider-Sickert & Jeffreys (OBG), *op. cit.*, p. 11.

⁷⁸ Hinnebusch (1993), *op. cit.*, pp. 197-198.

⁷⁹ The only significant exception being in the oil industry. Author's interview with Mr. Jamie Banks, British Trade Attache to Syria, Damascus, 29 May 1996.

the pressure to approach the World Bank, the IMF or other such lenders for assistance, mostly out of fear of losing sovereignty or economic control as a result, but the pressure from the United States has not been inconsequential for liberalisation.⁸⁰

The regional trend towards economic liberalisation in the Middle East and elsewhere, and regional competition for tourism, has influenced Syria's position on these matters. As other Arab states have become drawn into the international economic system, and have sought advantage in areas which include tourism, Syria has gradually been forced to adapt to this change. The older industries emphasised by SLD and ISI in the Middle East, especially heavy manufacturing, have become inefficient as a source of export income, forcing these states to find new sources of foreign trade and economic growth. Tourism satisfies this requirement especially well, as it provides labour-intensive employment, in an industry which provides valuable foreign currency.

However, to compete effectively for tourists against other developing states, Syria has needed to attract foreign investment and international expertise. Although many observers contend that this requires, or invariably leads to, domination of the reform process by outside institutions such as the World Bank or the IMF (a strong argument in the case of Egypt), this has not happened in Syria. This perhaps accounts for the comparatively slow economic reform process in Syria. However, by moving slowly on economic change, Asad has removed a great deal of the social change and dislocation which, paradoxically, threatens the reform process in states which try to achieve too much too rapidly.⁸¹

Because of their long history of tourism, Egypt, Israel, Morocco and Turkey have been the most successful regional states in developing their tourism industries, although states such as Tunisia and, more recently Jordan, provide something of an

⁸⁰ *Ibid.*

⁸¹ The frustrations and virtues of introducing reform gradually were emphasised to the author in an interview with Ms. Jana Behrends, Delegation of the European Commission, Damascus, 5 June 1996.

example for Syria. Tunisia has liberalised its economy, including its tourism sector, while at the same time achieving quite spectacular tourism growth, especially from Europe. Jordan owes a recent leap in tourism to its peace agreement with Israel in 1994, which almost immediately delivered economic benefits. Jordan has also been especially clever in marketing itself internationally, taking advantage of tourists visiting Israel or Egypt by encouraging them to also include Jordan on their itineraries.⁸²

It is in this environment that Syria has to compete for tourists, with regional competitors often having a more liberalised tourism sector and more experience in servicing Western tourists. Simple structural deficiencies, such as a comparative lack of English, German, and Japanese language skills among Syrian workers, has been something that the Asad regime has tried to remedy for this reason. In recognition of the need to compete with the capabilities of neighbouring states, the Syrian government has tried to improve a number of facilities and services which not only attract tourists, but encourage them to return to Syria for a second or third visit. The increased emphasis on international marketing (spending on which has increased by about 20 percent per annum since 1990), supplying road signs and travel literature in English, and reductions in the complexity of currency regulations are examples of this.⁸³ To expand and develop tourism, it is not enough simply to have tourist attractions, but the facilities available have to satisfy the requirements of visitors as well. A tourism consultant interviewed by the author gave this issue prominence in the relationship between liberalisation and tourism: liberalisation and investment should feature not only in large-scale projects, but also in the less grand but equally important areas of tourism marketing, public facilities, and tourism staff education.⁸⁴

⁸² Author's interview with Mr. Ghassan B. Oweis, Registered Jordanian Tourist Guide, Amman, 26 June 1996. See Chapter Six for further details.

⁸³ "al-Duktur Dinhu Dawoud, wazir al-siyaha al-suriyya: fi al-tariq ila al-Warsha al-Siyahiyya" ["Dr. Dinhu Dawoud, Syrian Minister of Tourism: On the Way to the Tourism Workshop"], *al-Iqtisad wa al-A'mal*, Special Issue 'Tourism and Prospective Peace' Year 18, May 1996, pp. 48-49.

⁸⁴ Author's interview with Mr. Robin Bischert, Associate Director, Coopers & Lybrand/Jawad Habib & Co., Tourism Consulting Division, Bahrain, 30 June 1996.

It is these areas which determine a tourist's satisfaction with the destination visited, and are important factors in a tourist's decision to return to a destination several times. So far, Egypt, Jordan, and Tunisia have done it better than Syria.

Should a peace agreement between Syria and Israel eventuate, it would undoubtedly benefit the tourism industry and, by enhancing the confidence of foreign investors, would also increase foreign investment in the tourism sector and attract more tourists, especially from the West. In 1991, for example, Egypt received 120,228 Israeli tourists and visitors,⁸⁵ and in 1994 about 12,000 Egyptians visited Israel.⁸⁶ Many more tourists from outside of these two states crossed the Egypt-Israel border, visiting both states instead of only one. As the then Minister of Tourism Abu al-Shamat said in 1995: "I think that [the eventuating of] the just and comprehensive peace specified by President Hafiz al-Asad would realise more and more chances for tourism exploitation and tourism marketing, for the states that export tourism wish for safe and secure regions that are far away from the atmosphere of war".⁸⁷

With or without a peace agreement with Israel, however, Syria has begun to benefit from greater stability and cooperation in the region; from an increased sense of safety and stability in the minds of potential travellers, and from regional cooperation with other Arab states. Syria, Jordan, and Lebanon have signed a tourism agreement, for example, to undertake some joint marketing of their states, and joint travel information bureaux overseas, in recognition of the fact that most travellers who visit the Levant want to visit as many of the major regional sites as possible, which are spread over several states.⁸⁸ Further, the host states benefit from such an agreement by saving money on advertising, publicity, and overseas

⁸⁵ Robert Vitalis, "The Middle East on the Edge of the Pleasure Periphery", *Middle East Report*, 196, September-October 1995, p. 5 (Table III).

⁸⁶ *Jerusalem Post International Edition*, week ending 7 January 1995, p. 6 & *Ha'aretz*, 3 November 1995, quoted in Robert Bowker, *Beyond Peace: The Search for Security in the Middle East* (Boulder: Lynne Rienner Publishers, 1996), pp. 49-50.

⁸⁷ *al-Iqtisad wa al-A'mal* interview with Muhammad abu al-Shamat, *op. cit.*, p. 62.

⁸⁸ *al-Iqtisad wa al-A'mal* interview with Dr. Dinhu Dawoud, *op. cit.*, pp. 48-49.

Table 5.1: Tourism to Syria — Number and Income, 1988-1998

	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998
Number of Visitors	421,000	411,000	562,000	622,000	684,000	703,000	718,000	815,000	830,000	842,000	860,000*
Tourism Income (US\$m)	266	374	320	410	600	758	1,149	1,338	1,206	1,250	n/a

* Preliminary figure only

Source: World Tourism Organization quoted in "wazir al-siyyaha al-suriyy sawood: suriyya qadwa fi al-siyyaha al-bayaniyya al-arabiyya ("Syrian Minister for Tourism Dawood: Syria is a Positive Example of Arab Regional Tourism"), *al-Iqtisad wa al-A'mal*, Special Issue 'GATT and Arab Tourism', Year 20, May 1998, p. 70 (Table); and World Tourism Organization, *Tourism Highlights 1999* (Madrid: World Tourism Organization, 1999), p. 18 addendum, retrieved electronically at <http://www.world-tourism.org/>

representation costs.

Syria's Minister of Tourism has held meetings with his counterparts from Morocco, Tunisia, Egypt, and the United Arab Emirates, in an attempt to encourage international tourism within the Arab world.⁸⁹ The Gulf, and the UAE in particular, has been a significant investor in the Syrian tourism sector. The idea of establishing an Arab tourism organisation, or something similar, has also been raised.

Syria has also targeted Arab tourists. When travelling within the region they typically have a greater respect for the culture and values of the host state, and, although some spend less money per day than Western tourists, tend to make their visit longer than Western tourists.⁹⁰ Given that Arab visitors account for over seventy percent of Syria's tourist arrivals, it is not surprising that they continue to be targeted in its tourism expansion plans.

CONCLUDING REMARKS

The most important trends in the politics of Syria have been the emergence of business elites, under the wing of Asad and the regime, and the growth of the middle classes. The regime in Syria, as a result, has begun to change, from an authoritarian-populist regime to a post-populist regime. To be sure, elements of the former remain powerful aspects of contemporary Syria, but the changes in the social and economic structures of Syria have placed it on a path to greater economic, and some would say political, liberalisation.

One of the key features of the relationship between economic liberalisation and tourism — where Syria is unique compared to other states in the region — is the extent to which the leadership has embraced new business elites as a political tool,

⁸⁹ *Ibid.*, p. 48-49. See also *al-Iqtisad wa al-A'amal* interview with Muhammad abu al-Shamat, *op. cit.*, p. 62.

⁹⁰ This point was made to the author in an interview with Ms. Haifa Hamdi, Sales Manager, Sheraton Damascus Hotel and Towers, Damascus, 21 May 1996. Further, it is only on average that Arab tourists spend less per day when travelling; some, such as those from the Arab Gulf states, spend as much as, or more than, Western tourists.

using both economic liberalisation and tourism as the main method to do so. This has been linked in part to the changing domestic structure and international situation facing the Syrian leadership, although the reforms that created and nurtured the business elites were begun well in advance of the collapse of the Soviet Union, and well before the middle class and other social changes emerged. It is clear, therefore, that the creation of new elites, and their situation within Syrian society and its political economy, is a deliberate strategy on the part of Asad. It should be stressed, however, that this has been a very gradual process — it is difficult to objectively assess the process, either against earlier state-society relationship models in Syria or in contrast with other states such as Egypt or Jordan. That business elites are so firmly entrenched in the tourism sector — and yet were virtually absent from it at the beginning of Asad's presidency — demonstrate the changes that have taken place but, in terms of the Syrian political power formula, are almost impossible to quantify.

The direct liberalisation of tourism has been the most dramatic, and easy to illustrate, aspect of the relationship between liberalisation and tourism in Syria. Beyond the laws creating TRANSTOUR, ASCTE, Cham Hotels, and other large enterprises, the tourism sector has undergone substantial restructuring since the late 1970s. The most recent landmark in the liberalisation was Law Number 10 of 1991, which appears to have had at least some success in increasing foreign investment in Syria, including in the tourism sector. At the same time, however, Law 10 has not worked economic miracles: in the case of transport, for example, the Law has had a strong positive impact on reducing shortages in passenger and freight transportation, but has also been widely abused and has not been implemented concomitant with a broader sectoral strategy.⁹¹

⁹¹ See Hans Hopfinger & Raslan Khador, "The Development of the Transportation Sector in Syria and the Actual Investment Policy", *Middle Eastern Studies*, 35, 3, July 1999, pp. 64-71.

More general changes in Syria, and throughout the world, have also been important: the end of the Cold War and Soviet support for the Syrian regime; substantial economic liberalisation in most states of the Middle East; the expansion of the tourism sector throughout the Arab and developing worlds; and the Middle East peace process have all had an impact on, and may also influence in the future, the Syrian economy, its society, and its tourism industry. The response from Asad and his regime has been a gradual liberalisation of the Syrian economy, and steps toward the expansion of Syria's tourism sector.

However, problems persist for the liberalisation process in Syria and for its tourism sector. The first is what has *not* been undertaken in the liberalisation process. The floating of the exchange rate, so that tourism prices reflect more accurately the actual costs, is one of the most important steps, without which Syria will continue to have difficulty in attracting foreign investment, trade, and perhaps even some price-sensitive tourists. The Syrian government has attempted to establish a clear relationship between the economic reform process and tourism, and yet has left incomplete many of the reforms necessary for the development of tourism.

It is notable that the reform process generally appears to have stalled since the mid-1990s, indicating a pattern in Syria of rapid flurries of reform interspersed with longer periods of consolidation. As the charts in Chapter Three illustrated, this is an apparent feature not just of Syria, but of Egypt and Jordan as well, and is perhaps a sign of the interplay between the forces and actors that support and oppose economic liberalisation. The fact that the first and second *infitah* were both crisis-induced suggests that another stage in the reform process may not occur until the regime is prompted by stronger economic motivations than presently exist.

Developments in Syria's foreign relations generally, will also have an influence on the economic liberalisation of tourism. The Middle East peace process and the introduction of Israeli tourists to Syria would have a positive effect on tourism numbers, although the political implications of Israeli tourists coming and

going from Syria is not something that the Asad regime is likely to ignore. The benefits of Lebanon's return to tourism prominence may be significant, if some of Lebanon's visitors can be lured into going to Syria as well. Relations with Turkey, which suffered a sharp decline in mid-1996, may ultimately have some impact on Syria's tourism sector, by discouraging tourists sensitive to instability if relations deteriorate further, or by perhaps delaying plans for a joint marketing and tourism representation program which may encompass Turkey, Syria, Lebanon, Jordan, and Egypt, and ultimately Israel as well.

Finally, the succession question and the future stability of Syria are important for both liberalisation and tourism. While Asad remains in power, it is probable that the liberalisation process will continue very gradually, and that tourism will further expand as long as there is the perception of stability and safety for visitors. The death of Basil, Asad's eldest son, in 1994 reignited the question of Syria's future after Asad.⁹² It is possible that there may be brief instability after the departure of Asad, if various elements of the military become involved in a power struggle, or if there is a resurgence of Islamic activism. Equally likely, however, is a smooth transition of power to the vice-president, or a quick, successful, bloodless coup by a senior military officer, neither of which need have a substantial or long-term negative impact on either economic liberalisation or the tourism industry.

The political and economic imperatives of the Asad regime have played a major role in the growth of the Syrian tourism industry over the past three decades, and in the economic liberalisation of the sector. Some political factors, most notably problems with Syria's foreign relations and the politics of economic reform, have had a negative influence on the economic potential of tourism. Ultimately, transformation of the political system may lead to a further economic reform and a decline in the role of the state in tourism, however for the foreseeable future

⁹² On the death of Basil al-Asad and the secession question, see "After Assad?", *The Middle East*, 232, March 1994, p. 5; "Dynastic Disappointment", *The Middle East*, 232, March 1994, pp. 12-13; Van Dam, *op. cit.*, pp. 129-135; and Perthes (1995), *op. cit.*, pp. 267-271.

(certainly for the remainder of Asad's time in office), the economic concerns of the regime and its relations with society are likely to have a similar impact on the tourism sector as in the recent past.

CHAPTER SIX

THE CASE OF JORDAN

In comparison with many of its Arab neighbours, Jordan's political economy is unique in a number of ways. In contrast with Egypt, Syria, or Iraq, it did not embrace radical politics or socialist models of economic development in the same way or to the same extent. The Jordanian economy prior to the 1950s was overwhelmingly dominated by the private sector, however from that time until the 1980s the state played an increasingly large and penetrating role in the economy. Since emerging as an artificial colonial creation, the social cohesion and economic potential of Jordan have been continually threatened by its geographical position, its paucity of economic assets, challenges to the legitimacy of its monarch, and the disturbances caused by large-scale Palestinian migration. Although it possesses two of the most spectacular tourist sites in the Middle East — the Roman ruins of Jerash, not far from the capital Amman, and above all the Nabatean city of Petra, with its unique architecture carved into the sides of rose-coloured cliffs — its tourism industry contains few attractions other than these sites, which has made it extremely difficult for Jordan to attract more than simply 'stop-over' tourists, who visit for only a few days, or a single day, and spend comparatively little money during their stay.

However since the late 1980s, and especially in the 1990s, tourism has emerged as a pivotal aspect of Jordan's economic development plans.¹ In the 1990s in particular, this has coincided with both a program of economic liberalisation, and a peace agreement in 1994 with Israel. The question, therefore, is not only whether there is a relationship between tourism and economic liberalisation, but also between

¹ For a political and economic overview of Jordan in the 1980s and early 1990s, including its attempts at economic and political liberalisation, see Laurie A. Brand, "Economic and Political Liberalization in a Rentier Economy: The Case of the Hashemite Kingdom of Jordan", in Denis J. Sullivan & Iliya Harik (eds.), *Privatization and Liberalization in the Middle East* (Bloomington: Indiana University Press, 1992), pp. 167-188.

tourism and peace with Israel as well. It is in the context of these dynamics that this chapter investigates the relationship between tourism and economic liberalisation in Jordan, and the effect of other issues such as the peace process on this relationship.

THE EVOLUTION OF TOURISM IN JORDAN

Jordan has only recently begun to target tourism as a major source of economic development. In the nineteenth and early twentieth centuries, Western tourists and travellers to the Middle East confined themselves largely to main urban areas of the Holy Land and Egypt, although a handful of people visited Petra, the first Western visitor to which had been the Swiss traveller Jahann Ludwig Burckhardt in 1812.² However the difficulty of reaching Petra, the lack of major cities and infrastructure in the Transjordan region, and the allure of the religious and historical sites elsewhere in the region meant that most travellers bypassed Jordan until the 1920s. In the 1920s, the government of Transjordan introduced or upgraded a number of facilities throughout the countryside, including roads, communications, and power, in order to increase its own political reach and effectiveness and to restrict the power of tribal groups. As a result, tribes, which had long been hostile to foreign travellers, lost much of their ability to disrupt the early tourism industry around Petra and in the countryside. The 1920s also saw archaeological interest in Petra and other areas increase dramatically, and the establishment by the Thomas Cook Company of a small hotel at the entrance to Petra.³ The changes of the 1920s increased the comfort for tourists and their ability to undertake the journey to Petra, while archaeological digs caught the attention of potential travellers. Still, at this time only the wealthiest of foreigners could afford the time and money which a visit to Petra or Wadi Rumm required; a situation that remained until well into the 1950s.

² John Shoup, "The Impact of Tourism on the Bedouin of Petra", *Middle East Journal*, 39, 2, Spring 1985, p. 279.

³ *Ibid.*, p. 280.

The small size of the tourism industry, and the fact that local labour was rarely used by tourism operators at major sites, limited the economic importance of tourism during the 1920s, 1930s, and 1940s. Workers at Petra and other tourism sites were typically Egyptians. An early example of guest workers, they were brought to tourism sites for six or eight months a year, chosen as guides and employees because of their ability to speak European languages and for their knowledge of Western customs and norms.⁴ During this time, Transjordan benefited from its proximity to Jerusalem, especially East Jerusalem, which it possessed until the Arab-Israeli war of 1967. Jerusalem had long since become a centre of Christian, Muslim and Jewish pilgrimage. Again, the Thomas Cook Company had been instrumental in forming and developing a tourism industry there, linking Egypt and the Holy Land and offering tourists the additional option of visiting the east bank of the Jordan river.

Jordan's first serious effort at attracting Western tourists was made in the 1950s, with the advent of air links between Jordan and Europe and as tourists began travelling in increased numbers to Egypt, Israel, and Lebanon. A tourism department was established by the Jordanian government in 1953, to regulate hotels, tourism assets and sites, and to register guides and travel agencies.⁵ The following year, an advertising campaign was undertaken in the United States to encourage visitors for Easter. However the tourism sector was unable to accommodate all those who visited as a result of the advertisements, which highlighted the inadequate infrastructure for tourism at the time. This led the government to pay greater attention to the development of facilities such as hotels, restaurants, road and transport links, and to the training of staff in languages and tourism-related fields.⁶ This was followed by the formation of Royal Jordanian Airlines (also known as Alia) in 1963. The decision to form an airline was made by the government, but its

⁴ *Ibid.*, p. 281.

⁵ International Bank for Reconstruction and Development, *The Economic Development of Jordan*, 2nd Ed. (Baltimore: Johns Hopkins Press for the International Bank for Reconstruction and Development, 1961), p. 249.

⁶ *Ibid.*, p. 249-250.

establishment and management was left to Ali Ghandour, an external and relatively independent manager brought in from Lebanon.⁷ Although Royal Jordanian was initially very small, it developed rapidly into a major regional carrier with an average annual growth rate of 18.8 percent during the 1960s and 1970s.⁸ Whereas the period from the 1950s until 1967 witnessed a solid expansion in the size and value of the tourism sector in Jordan, the loss of the West Bank to Israel as a result of the Six Day War in 1967 caused a dramatic reversal of this trend, as highlighted in Table 6.1. In particular, the loss of East Jerusalem and Bethlehem, with their important

Table 6.1: The 1967 Arab-Israeli War and Tourism to Jordan

Origin Of Tourists	Tourist Numbers (1967)	Tourist Numbers (1968)	% Change
Arab World	262,943	279,400	+ 6
Middle East/Asia	79,079	75,572	— 4
Europe	53,458	15,026	— 71
Americas	24,039	3,605	— 85
Other	6,114	1,829	— 70
TOTAL	425,633	375,432	— 11

Source: Hashemite Kingdom of Jordan Official Statistics, quoted in Kameel Majdali, "Christian Visitors to Jerusalem: Pilgrims, Tourists, Lobbyists?", *Journal of Arabic, Islamic, and Middle Eastern Studies*, 1, 2, 1994, p. 49 (Table 3).

historical and religious sites, meant that Israel gained a large proportion of tourism that had previously gone to Jordan.⁹ The war "stripped Jordan of 90 per cent of its tourist assets".¹⁰

After 1967, largely as a result of the loss of the West Bank, the Jordanian

⁷ "A Third World airline takes flight", *South*, Special Survey 'Jordan', 25, November 1982, p. 41.

⁸ *Ibid.*, p. 41. It is also telling that between 1963 and 1983, in only one year — 1967 — did Alia not register a growth.

⁹ In the mid-1960s, about 600,000 Christian pilgrims visited Jerusalem annually. Similar numbers after 1967 went overwhelmingly as visitors to Israel rather than Jordan. See Kameel Majdali, "Christian Visitors to Jerusalem: Pilgrims, Tourists, Lobbyists?", *Journal of Arabic, Islamic, and Middle Eastern Studies*, 1, 2, 1994, pp. 45-58.

¹⁰ Jim Auty, "New Tourist Horizons", *South*, Special Survey 'Jordan', 25, November 1982, p. 43.

government changed the goals of its tourism policy towards attracting short-term, 'stop-over,' tourists, and began selling Jordan as a 'gateway' to the Middle East. Hotel facilities and tourist sites throughout the country were upgraded and expanded.

In a strange twist to the Arab-Israeli conflict, tourism links between Jordan and Israel after 1967 were rarely severed, and at times flourished. The King Hussayn/Allenby bridge across the Jordan River remained open for much of the period of 1967-1994, and although it was virtually impossible for Israelis to visit Jordan and vice versa, third-party tourists travelled freely between the two states for much of this time. Although the West Bank had become occupied by Israel after the 1967 war, Jordan continued to view it as Jordanian territory. As a result, tourists were simply required to obtain a West Bank travel permit, while once across the Jordan River, Israelis considered such tourists to be in Israel. Despite periodic closures of the bridge, throughout the 1970s and 1980s and into the 1990s a number of travel agencies maintained branches in both Amman and Jerusalem,¹¹ and quite openly marketed Jordan and the West Bank simultaneously to foreign tourists.

Development of the tourism sector in Jordan, especially in the 1970s, was aided by a period of general economic growth and expansion, while the policy of presenting Jordan as a 'stop-over' destination produced some favourable results. The economic boom of the 1970s found its origins in the dramatic rise on workers' remittances, which were strong in the years 1976-1980, were at a peak in the period 1981-1985, but declined markedly in the years thereafter.¹² Much of the remittances went into unproductive investments such as residential housing and consumer goods, however some also went into private sector businesses such as transportation and tour companies. As a percentage of GNP, the tourism sector in the period 1976 to 1980 increased in value from 10.57 percent to 12.56 percent, a rise of almost 20

¹¹ *Ibid.*, p. 43.

¹² Measured as a percentage of GNP. See Christopher McDermott, "Macroeconomic Environment and Factors Underlying Growth and Investment", in Edouard Maciejewski & Ahsan Mansur (eds.), *Jordan: Strategy for Adjustment and Growth* (Washington: International Monetary Fund, 1996), p. 14 (Table 3.2).

percent.¹³ Much of this growth was attributable to increased private sector activity and investment in tourism, such as a dramatic rise in hotel and tour company investments,¹⁴ but some growth was also the result of increased government spending, most notably the construction of Amman's Queen Alia airport¹⁵ and an increase in government spending on transportation.¹⁶

As a rentier economy with a strong expatriate workforce in the Gulf and elsewhere, Jordan also relied for income on the export of tourism-related labour. Jordanian training facilities for hotel, airline, and tour staff were reputable, but trained people largely for tourism sector work in other states, rather than in Jordan. The training facilities owned by Royal Jordanian Airlines, for example, train pilots and cabin crew for a number of airlines in the developing world.¹⁷ The large number of Jordanians who speak English well were (and are still) in demand in many parts of the Arab world for positions as hotel staff and in other tourism-related work. The training of Jordanians for employment abroad was very profitable throughout the 1970s, as these workers typically returned several times the cost of their training in repatriated funds. In the 1980s, however, Jordan entered a serious economic recession, and so began to look to the development of its own tourism sector as a method of achieving economic development and employment.

¹³ Derived by the author from statistics presented in Bichara Khader, "Targets and Achievements of Jordan's Last Five-Year Plans, 1976-1980 and 1981-1985: A Summary", in Bichara Khader & Adnan Badran (eds.), *The Economic Development of Jordan* (London: Croom Helm, 1987), p. 181 (Table 10.4).

¹⁴ Auty, "New Tourist Horizons", *op. cit.*, p. 43.

¹⁵ Khader, "Targets and Achievements of Jordan's Last Five-Year Plans....", *op. cit.*, p. 179 (Table 10.2).

¹⁶ Particularly the expansion of Royal Jordanian Airlines and the Jordan Express Transport and Transportation Company (JETT).

¹⁷ "A Third World airline takes flight", *op. cit.*, p. 41.

ECONOMIC CRISIS AND TOURISM POLICY: THE 1980s

The 1980s was a period of economic stagnation and recession in Jordan, and financial performance was poor across most of the economy. The origin of the recession was a combination of several negative economic changes: a fall in workers' remittances from abroad, an expanding trade deficit, a decline in foreign aid and in other international assistance, and low levels of investment in the Kingdom. The most important problem, however, was the structure of the Jordanian economy. The economic troubles of the early 1980s would have been far less severe were it not for the rentier structure of the Jordanian economy, and the concomitant inability of the Jordanian government to develop a taxation or austerity regime without suffering serious political damage as a result. The government therefore faced the dilemma of either drawing on reserves and borrowing to meet its commitments, or placing a greater burden on its people — in the form of higher taxes or greater austerity — which, it was felt, would be politically extremely dangerous.

The expansion of tourism into a major economic sector, and as an important development goal of the Jordanian government, may be traced partly to the recession of the early 1980s and the need of the government to find a labour-intensive, rentier-like sector which could compensate for the stagnation elsewhere in the economy. When the recession began, tourism — although growing in value — was still far too small to cover the costs of economic problems in other sectors. However, the government saw tourism as a potentially valuable source of foreign income, employment creation, and escape from economic stagnation. Not surprisingly, a simple decision to pay greater attention to tourism did not translate into immediate economic benefits. The nature of the tourism sector meant that a complete restructuring of the sector, and considerable short- and medium-term spending, would be necessary before any longer term positive results would be felt.

The emphasis since 1967 on transit tourists and short stay visitors had led to

the development of certain characteristics in the Jordanian tourism industry. It had, over the previous fifteen or so years, been structured around three types of foreign visitors, none of which could easily be transformed into longer stay tourists who would spend more money. The first category of visitors were transit passengers travelling on Royal Jordanian Airlines. Some were Europeans travelling to the Gulf, but most were Arab tourists flying between Baghdad or the Gulf, to Cairo or destinations in North Africa or Europe. When Queen Alia airport was designed in the late 1970s, an enormous number of transit passengers was assumed. The number peaked in 1982 at 2.56 million, however the recession which began at that time, combined with the Iran-Iraq war, cut heavily into the number of transit passengers stopping in Jordan. With declining numbers, transit passengers were not able to be converted into an overall increase in longer stay tourists.

The second group of visitors were business travellers. Again, the Iran-Iraq war dealt a blow to the number of transit business travellers, as did the expanding size and improving reputation of the airlines of the Gulf, which competed with Royal Jordanian Airlines by offering direct services to the Gulf states which were as safe and comfortable as the Jordanian carrier. The additional problem, of course, was that business travellers focused on saving time rather than money, and were therefore more inclined to choose direct air services rather than flights requiring a stop-over or change of aircraft. The time constraints on business travellers and their preference for direct flights meant that they proved difficult to convert into tourists.

A third major group of foreign visitors was formed when, from the late 1970s onwards, Jordan began marketing itself, with some success, as a stop-over destination for tourists. This had essentially been an attempt to expand its position as a stop-over destination for business travellers, to include tourists from Europe who were travelling to the Middle East or further afield in Asia. The growth of the Jordanian carrier in part spurred this policy, as the airline competed well for holiday-makers who, unlike business people, were less concerned about stop-overs and more

interested in saving money than time. However, the perceived and real instability of the Middle East at the time meant that the attempts to attract stop-over tourists in Jordan met with only limited success, and even less success in attracting longer stay tourists.

A combination of economic recession, a lack of internal tourism, Jordan's geographic centrality in the region, and the limited success of concentrating on stop-over tourism, led the Jordanian government to begin aggressively marketing Jordan as a tourist destination in and of itself in the late 1980s.¹⁸ Full scale tourism development became a strategic economic focus of the Jordanian government. A change in circumstances assisted Jordan in partially developing the status of a tourism destination in its own right. One change was the strong numbers of European and North American tourists, attracted to Jordan for its historical sites and its geographical centrality in the Levant. By the mid-1980s, Jordan's tourism infrastructure was in place and was of good quality, and Petra had been developed into a major Middle East attraction, Aqaba had become a resort of international reputation, the springs and castles around the countryside were being marketed internationally as important attractions, and nearly all the major cities and towns had adequate numbers of quality hotels and restaurants.

As well as providing assistance with the structural improvements mentioned above, the government was also closely involved with the regulation, and deregulation, of tourism activity, and with the marketing of Jordan to potential foreign tourists. In the late 1980s, the Jordanian government combined its resources with the private sector and Royal Jordanian Airlines to spend about US\$1 million on international marketing.¹⁹ The core markets of Europe and North America were given particular attention, but the Gulf states, with the potential to supply large numbers of people seeking refuge from the summer heat of the Gulf, were also

¹⁸ Rami G. Khouri, "Tourism: Developing All-Round Attractions", *MEED*, Special Report 'Jordan', 9 February 1990, p. 14.

¹⁹ *Ibid.*, p. 14.

targeted. It was at around this time that Royal Jordanian began expanding its services to include North America and the Far East. This co-ordinated marketing campaign stressed the major attractions of Petra, Jerash, and Aqaba, and also introduced new types of tourism, especially conference and incentive travel, both of which promised considerably higher financial value than group or individual tourism.²⁰ At the end of the 1980s, the Jordanian government also began to tighten the rules governing tour guides, who until this time had operated relatively freely and often without adequate qualifications. After 1990, new rules were implemented which required guides to have a university qualification and experience, and to have passed an examination on a foreign language and an examination on the sites where they would be authorised to work.²¹ Guides were no longer allowed to work throughout the country as they wished; different categories of licences were created for various areas.²² Prices for a tour guide licence were increased, and the prices that guides were able to charge were set by the government.

From the mid-1980s onwards, Western tourists increasingly spent a week or more in Jordan, with a side-trip of a few days to Jerusalem, and less the reverse situation which had been more common in the 1960s and 1970s. To a certain extent, the growth of tourism in the late 1980s can be attributed to "a long period of stability, combined with improved infrastructure and sustained international marketing efforts",²³ especially given the limited economic reforms in the tourism sector at the time. To be sure, economic liberalisation did occur in small doses, but accounted little for the expansion of tourism. In some cases, for the long-term benefit of tourism, rules and regulations were in fact increased, or de-liberalised, as was the

²⁰ Author's interview with Mr Rami Safadi, Director of Sales, Amman Marriott Hotel, Amman, 25 June 1996. Other hotel management staff interviewed by the author in Egypt and Syria expressed a similar view of the value of incentive and conference travel.

²¹ Author's interview with Mr Ghassan B. Oweis, Registered Jordanian Tourist Guide, Amman, 26 June 1996.

²² *Ibid.* Three categories of licence were established. Category A allowed a guide to work in all 12 tourism districts, category B in 9 nine districts, and category C only in a certain tourism region or area. Special courses were introduced to qualify guides for specialised tourism, such as scientific or archaeological tourism.

²³ Khouri, "Tourism: Developing All-Round Attractions", *op. cit.*, p. 14.

case with tour guide registration and activity. There are few examples from the 1980s of the direct liberalisation or reform of tourism or tourism firms; prior to the 1989 agreement with the International Monetary Fund (IMF), the reforms were for the most part piecemeal attempts to allay the affects of economic recession and especially a deteriorating external account. A fall in foreign aid, growing indebtedness, and economic fluctuation made forward economic planning little more than guesswork, and the economic affects of the Iran-Iraq War added to Jordan's woes. Jordan suffered what one economist termed a "one-two-punch":²⁴ a general economic recession coupled with the Iran-Iraq war, which by 1982 had suppressed Iraq's economy and reduced trade between Iraq and Jordan, especially transit of goods through the port of Aqaba.

The Jordanian government's piecemeal moves toward economic reform had little positive effect on the economy, given the staggered and incoherent nature of the reforms. In 1982, for example, taxation rates were lowered to encourage compliance and private investment;²⁵ however in the absence of spending cuts, the budget deficit worsened and the government was forced to borrow and draw on reserves. Taxation compliance, but especially private sector investment, shifted little. In 1984 and 1985 the government attempted more substantial reforms, after appointing a new Prime Minister, Ahmad 'Ubaydar. Reform measures included tight controls on government spending, higher taxes (especially indirect taxes), changes in customs duties, and greater assistance to Jordanian businesses.²⁶ In 1985, investment laws were overhauled and revamped, and subsidies were prepared for reduction. As with the reforms of 1982, however, the 'Ubaydar government faced a number of difficulties; first from internal opposition to reforms, and second from international bodies, especially the World Bank and IMF, which felt that little was being done to

²⁴ Warren Richey, "Gulf Ties have Brought Wealth but Restrict King on Peace Plan", *Christian Science Monitor*, (Pullout Section, Economic Report, Jordan), 25 May 1983, p. B3.

²⁵ Brand in Harik & Sullivan (eds), *op. cit.*, p. 171.

²⁶ *Ibid.*, p. 171.

encourage effectively the private sector to flourish in Jordan.²⁷ Further reforms were announced in 1986 and 1987, which stressed the need for private sector rejuvenation. In late 1986 the Jordanian government established, for the first time officially, a commitment to, and the guidelines for, privatisation. The 1987 budget, which stressed the need for greater exports, higher production and productivity, and job creation,²⁸ also included the first serious plans for privatisation. However, much remained to be done: Jordan continued to be frustrated in its attempts at attracting foreign investment, due to its recession, the high costs resulting from the boom of the 1970s, and the complex laws and regulations on investment. Despite a slight economic improvement in the late 1980s the recession continued, forcing the government to make even more complicated and substantial reforms to the economy, which it did after reaching an agreement with the IMF in April 1989.

The 1989 agreement with the IMF was substantial indeed. To tackle the budget deficit, foreign debt, inflation, and balance of payments problems, the government commenced a major strategy of reform. Under a four-year package, which included US\$150 million in IMF support, the Jordanian government agreed to cut the budget deficit, tighten borrowing, create incentives for trade and investment, reduce bureaucratic obstacles to foreign investment, and improve economic management techniques. The most controversial move, however, was the introduction of price increases of between 10 and 50 percent on many consumer items, including petroleum, licence fees, telephone charges, and alcohol and cigarettes.²⁹ Riots broke out in the southern city of Ma'an within hours of the announcement on 18 April, in which at least eight people were killed. The protests were partly a response to the price rises directly, but also represented popular dissatisfaction with economic inequality and maldistribution of resources and

²⁷ *Ibid.*, p. 172.

²⁸ Pamela Dougherty, "Jordan's Budget Gets a Cautious Welcome", *MEED*, 24 January 1987, p. 10.

²⁹ Pamela Dougherty & Simon Edge, "Amman Attempts to Strike a Balance", *MEED*, 15 December 1989, p. 4.

opportunity.³⁰ They were an important factor in the acceleration of democratisation in July 1989,³¹ and the dismissal of premier Zaid al-Rifa'i, as well as his finance minister and the central bank governor. As the Jordanian government had feared, there was an immense dissatisfaction with economic reform. To make matters worse, there proved to be little initial benefit to the reforms of 1989, and the 1990-91 Gulf War had a particularly profound effect on Jordan's economy, with its tourism sector being impacted especially adversely.

Piecemeal liberalisation and the exogenous problems inhibiting tourism development meant that there is a paucity of evidence linking tourism to economic reform in the 1980s. The only evidence of a relationship is simply that tourism was used, with very limited success, as a potential alternative to the unpopular economic reforms being urged on Jordan. There were, as mentioned, a limited number of reforms to the tourism sector, but many of these moves were cases of re-regulation, albeit sensible strategic re-regulation, rather than liberalisation. Laws with a peripheral impact on tourism, such as those that liberalised investment and customs, did have an impact, often a positive one, on tourism development, but were limited in depth and were hampered by the external shocks to the economy during this period. Despite the diversification of the tourism sector in the 1980s, and a period of rapid growth in the second half of the decade, the position of tourism in the Jordanian economy remained quite modest: "Available statistics highlight apparently contradictory trends. Tourism has boomed recently, but the longer term trend has been a relative decline in tourism's contribution to gross domestic product (GDP)".³²

³⁰ Kathrine Rath, "The Process of Democratization in Jordan", *Middle Eastern Studies*, 30, 3, July 1994, p. 540.

³¹ *Ibid.*, p. 540.

³² Khouri, "Tourism: Developing All-Round Attractions", *op. cit.*, p. 14.

THE 1990-91 GULF WAR AND TOURISM

The Iraqi invasion of Kuwait on 2 August 1990, and the subsequent Gulf War of January-February 1991, affected Jordan more than most Middle East states. The crisis could not have come at a worse time for Jordan and its King; the economic problems of the past decade, and the growing political activity of both Palestinians and Islamists, placed King Hussayn in an unenviable position — perhaps his weakest position since the upheaval of Black September two decades earlier.

Beside the challenge of balancing international condemnation of Iraq with popular support for Saddam Hussayn on the streets of Jordan, the 1990-91 crisis further damaged Jordan's already frail economy. Aqaba had become a transit point reliant on Iraq's foreign trade, and subsequently lost much of its income as the international sanctions against Iraq caused a 66 percent decline in Aqaba's trade between 1989 and 1992.³³ The Gulf War also caused a massive decline in international trade with, and foreign aid and assistance to, Jordan. Workers' remittances also fell, as Jordanians working in Kuwait and Iraq were repatriated.³⁴ Unemployment, already at 15 percent prior to the invasion of Kuwait, reached 40 percent in early 1991.³⁵ The cost of the Gulf War to Jordan, in the year after hostilities ceased, was estimated by the Jordanian finance minister at US\$2.144 billion, or "the equivalent of 63 percent of GNP."³⁶ The wider regional economic losses associated with the Gulf War also had a strong impact on Jordan and its economic situation; a decline in inter-regional and intra-regional trade, a plummet in investment in the region, and economic instability brought about by the uncertainty

³³ Peter Feuilherade, "The Long Arm of the Embargo", *The Middle East*, March 1993, p. 39.

³⁴ Adam Garfinkle, "Jordanian Policy from the Intifada to the Madrid Peace Conference", in Robert O. Freedman (ed.), *The Middle East After Iraq's Invasion of Kuwait* (Gainesville: University Press of Florida, 1993), p. 308.

³⁵ *Ibid.*, p. 308.

³⁶ Yahya M. Sadowski, *Scuds or Butter? The Political Economy of Arms Control in the Middle East* (Washington: The Brookings Institution, 1993), p. 17.

of the crisis. The regional losses from the War included approximately US\$12 billion in lost output from Middle Eastern countries, and US\$5 billion in lost income,³⁷ which damaged Jordan's interdependent economy especially hard.

Further, in common with most states in the geographical vicinity of the crisis, Jordan's tourism sector suffered an immediate and drastic decline as a result of the crisis; almost immediately the tourism sector "all but disappeared".³⁸ Even before the Allied attack on Iraq on 16 January 1991, most European airlines had either suspended operations to Jordan, or had greatly reduced services.³⁹ Royal Jordanian Airlines suffered average losses of US\$12.5 million per month in the September to December 1990 period, after losing not only tourists to Jordan, but also transit passengers, cargo, charter flights, and valuable routes to Iraq and Kuwait.⁴⁰ Royal Jordanian's only growth service at this time, which was short-lived, was the evacuation of foreign workers from Iraq and Kuwait in late 1990.⁴¹

At least in the short-term, King Hussayn's policy towards the Iraqi invasion and the War did not assist Jordan in extricating itself from recession. In facing a conflict between internal support for Iraq and external pressure for Jordanian opposition to Iraq, the King's policy of neutrality, with perhaps a subtle pro-Iraqi sympathy, was both an expected and tactful stance. Still, it pleased few in Jordan, and was widely misinterpreted in the West as being pro-Iraqi and, more inaccurately, as being in support of the invasion of Kuwait. Jordan's image in the United States and Europe as a 'moderate' appeared to have been lost. The King's call in August 1990 for an 'Arab solution' to the Iraqi invasion was viewed with suspicion in the West. On 6 February 1991, once the war was underway, Hussayn's call for an end to fighting, and his criticism that the West intended to achieve "foreign hegemony"⁴² in

³⁷ *Ibid.*, p. 20 (Table 2-1).

³⁸ Simon Edge, "Jordan's Fate Hangs in the Balance", *MEED*, 18 January 1991, p. 4.

³⁹ Lufthansa, KLM Royal Dutch Airlines, Swissair, Air France, and Alitalia all suspended or reduced services to Jordan. See *Ibid.*, p. 4.

⁴⁰ Pamela Dougherty, "Coping in the Most Adverse of Conditions", *MEED*, Special Report 'Aviation', 18 January 1991, p. iv.

⁴¹ *Ibid.*, p. iv.

⁴² Speech by King Hussayn of Jordan, reported in *The New York Times*, 7 February 1991, quoted in

the Middle East, was viewed in the United States especially as a hostile and offensive statement. As a result of the King's stance on the Gulf War, US-Jordanian relations were strained, but neither temporarily severed nor permanently damaged; the United States recognised that the King was probably placating a domestic audience with such statements. Further, both the United States and Jordan had a strong interest in maintaining a working relationship with each other - the United States required a stable and moderate force in the region, especially if a peace process was to be initiated after the war, and Jordan needed US support and financial assistance.

Despite the manifold negative impacts of the Gulf War on Jordan, a number of which still remain as a burden on the Kingdom, the period since 1991 has been one of strong economic recovery. An acceleration of economic liberalisation appears to have borne positive results, including high economic growth, lower inflation, and an improvement in Jordan's debt condition. Tourism, also, has witnessed dramatic growth, especially in the period 1992 to 1995, as evident from Chart 5.2. This was the result of political stabilisation in the Middle East, government economic management and economic liberalisation, and a peace agreement with Israel.

TOURISM AND THE ACCELERATION OF ECONOMIC REFORM:

THE 1990s

The Jordanian government continued the process of economic reform in the 1990s, despite the added economic and political constraints that stemmed from the 1990-91 Gulf War, and the unpopular nature of the reforms which were implemented. Unlike the case of Egypt, the liberalisation of tourism during the 1990s has been implemented with a strong role for the government — a realisation by the Jordanian government, perhaps, of the negative consequences of the "over-

liberalisation" of tourism, as has been the case in some aspects of Egypt's tourism sector. The 1990s have therefore witnessed an increased emphasis by the government on the economic liberalisation of tourism, but mixed with a strong government role in the management and development of the sector. The government's role in the economy, tourism included, had been gradually increased between the 1940s and the 1970s, and its retreat from the economy, starting in the 1980s, has been equally gradual, marked by caution and, at times, hesitation. Although under pressure from the World Bank and the IMF, King Hussayn made it clear that economic reform would move at a pace with which Jordan was comfortable and which would minimise the problems associated with economic change, despite this drawing some criticism that it was very "slow to open up [to foreign investors]".⁴³

Such gradualism is not without its benefits. In contrast with Egypt, where economic liberalisation in the past few years has been poorly planned and often chaotic, the measures which have been included in Jordanian liberalisation have generally offered positive results, and have been undertaken with fewer problems and negative impacts as a result of the government's cautious reform. Although the indicators for Jordan's tourism sector have developed and improved slowly in the late 1980s and early 1990s, they have nonetheless shown an overall positive trend. Beyond the government's caution, furthermore, a number of major economic reforms have been undertaken, including many in the tourism sector. The dominant feature of economic reform has been the government's attempts at macro-economic and budgetary reforms, which have been linked with attempts at improving its economic management. Rather than particular watersheds in economic liberalisation, the 1990s have been characterised by more subtle reforms, and attempts by the government to increase gradually the role of the private sector in the economy, including tourism.

⁴³ Pam Dougherty, "Adjusting to More Sober Expectations", *MEED*, Special Report 'Jordan', 21 April 1995, p. 9. Also on the cautious nature of economic reform in Jordan, see Kirk Albrecht, "Now the Business Begins", *The Middle East*, December 1995, p. 16, and the examples of cautious reform in Peter Feuilherade, "Implementing Checks and Balances", *The Middle East*, January 1996, p. 19-20.

Table 6.2: Jordan — Visitor Arrivals and Tourism Revenue, 1988-1997

	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997
Number (000s)	608	639	572	437	661	766	858	1,074	1,103	1,127
Change (%)	27.46	5.10	-10.49	-23.60	51.26	15.89	12.01	25.17	2.70	2.18
Revenue (US\$ million)	615	547	512	317	462	563	582	660	744	730
Change (%)	6.22	-11.06	-6.40	-38.09	45.74	21.86	3.37	13.40	12.73	2.15

Source: World Tourism Organization, quoted in *al-Iqtisad wa al-A'amal*, Special Issue, Year 20, May 1998, p. 100 (Chart).

However, engaging and expanding the role of the private sector in economic development has obviously required some significant policy shifts — especially in laws pertaining to investment, foreign exchange, international trade, taxation, customs and immigration — but such reforms have been less hurried and more gradual than in Egypt or Syria.

In the early 1990s, the view was widely held that, had it not been for the economic downturn associated with the 1990-91 Gulf War, the Jordanian tourism sector would have grown rapidly after the boom of the late 1980s. Therefore the government continued to market Jordan as a primary destination, as opposed to a stop-over destination or a one- or two-day side-trip from Israel or Egypt. The emphasis on resort tourism to Aqaba also continued, after the success achieved in the late 1980s. Aqaba, especially with its nearby attraction of Wadi Rumm and being about the same distance from Petra as is Amman, drew large numbers of European visitors in the late 1980s who stayed for a week or longer there.⁴⁴ The construction of hotels and tourism infrastructure continued after the Gulf War at Aqaba as well as at Petra, where an expansion of about 500 hotel rooms had been planned for in 1990, prior to the 1990-91 Gulf War.⁴⁵ The rapid expansion of hotel and other tourism infrastructure in Petra was frozen by the government in 1994, in an attempt to preserve the Petra site, but by this stage Petra had already suffered the side-effects of nine major hotels (with a total of 1151 rooms) as well as a number of illegal hotels and guesthouses in the nearby town of Wadi Mousa.⁴⁶ The emphasis on regional co-operation in tourism also continued, with Jordan remaining reliant on Egypt, Israel, and Syria to provide many of its tourists.

While retaining many earlier tourism development policies, there was nonetheless an increased emphasis on economic liberalisation and the role of the private sector in tourism investment, development, and service delivery. A more

⁴⁴ Khouri, "Tourism: Developing All-Round Attractions", *op. cit.*, p. 14.

⁴⁵ *Ibid.*, p. 14.

⁴⁶ "Special Feature: Petra", *Middle East Land and Development* (hereafter, *MELAD*), April 1996, p. 5-7.

focused marketing campaign, with co-ordination between the government, the private sector, and Royal Jordanian Airlines, presented a "slick"⁴⁷ image in Jordan's tourism marketing. The Jordanian government aimed, with these initiatives, to expand the size and value of the tourism sector in the 1990s, but unlike other states of the region such as Egypt, was comparatively cautious and pursued a 'slow-and-steady' policy towards tourism expansion.

As well as the continuation of the above strategies for tourism, government policy also expanded to include some new plans for tourism development. The emphasis from the 1980s on marketing Jordan as a tourism destination in the United States and Europe continued, but with a stronger focus on marketing co-ordination between sectors in Jordan. Despite some friction between the Ministry of Tourism and the private sector — particularly over the amount of money spent by the government on tourism development⁴⁸ — co-ordination between the public and private sectors did increase after 1991. The private sector, which preferred campaigns focused on a single country or group of countries (rather than a thinly-spread global campaign), encouraged the government to establish marketing programmes along this line. Thus in the early 1990s, Jordan initially targeted three countries per year (for example, Spain, Germany, and the Netherlands in 1994), and then undertook individual projects in certain countries in subsequent years, such as the Netherlands in 1995 and Japan and the United Kingdom in 1996.⁴⁹ The 1990s also saw new types of tourism gain attention in Jordan's strategic plans; in particular, cultural tourism, health tourism, and incentive and conference tourism were given a renewed emphasis by the government, perhaps in recognition that some limits did exist in the typical areas of guided tours and stop-over visits.

In the 1990s the government also developed regional tourism sites. In part,

⁴⁷ Author's interview with Mr Robin Bischert, Tourism Consultant & Associate Director, Coopers & Lybrand/Jawad Habib & Co, Bahrain, 30 June 1996.

⁴⁸ Simon Edge, "Getting Back on the World Tourist Map", *MEED*, Special Report, 'Jordan', 28 May 1993, p. 13.

⁴⁹ Author's interview, Amman, 26 June 1996.

this was designed to spread tourism throughout the country, since the majority of Western visitors were spending most of their time in Aqaba and the southern areas of Jordan. Greater emphasis was placed on sites in the north and east of Jordan such as the Dead Sea, the desert castles east of Amman, and the towns of Madaba, Azraq, and Umm Qais.⁵⁰

Jordan's relatively gradual and controlled economic liberalisation of tourism was slightly accelerated in the 1990s. The Investment Law of 1987, which had represented a step towards the liberalisation of foreign investment, underwent a number of amendments in the early 1990s to improve its efficacy and the attractiveness of Jordan to investors, especially from other Arab states. The law was ultimately overhauled in 1995, and passed in parliament as the Investment Promotion Law of 1995. The laws aimed at attracting investors not least in tourism, which had begun a period of growth in 1992 but was restricted by a number of inefficiencies and, in some areas, an under supply of appropriate facilities to cater for a rapid expansion of the sector. A further economic reform in the 1990s was the dismantling of government monopolies in key areas, a continuing policy of macroeconomic and budgetary stabilisation, and a number of smaller liberalisation initiatives. It is important to note the changing emphasis of the Jordanian government, and yet its continued gradualist approach to economic liberalisation. Despite the enormous financial losses and problems associated with the Gulf War, Jordanian liberalisation in the 1990s has been characterised by a series of reforms, which have balanced the need for change with the short-term costs and disruptions associated with liberalisation.

In an attempt to encourage private sector involvement in the tourism sector, the government began to dismantle barriers to private sector entry and operation in tourism. Most notable was the cessation in 1995 of some public sector monopolies in tourism, especially that previously enjoyed by the government-owned Jordan

⁵⁰ *Ibid.* See also Edge, "Getting Back on the World Tourist Map", *op. cit.*, p. 13.

Express Tourism and Transport Company (JETT). JETT's monopoly on internal bus services in Jordan had been unpopular with the private sector, even though, starting in 1980, JETT had contracted out some of its services, and had entered agreements with private sector firms to offer additional services such as catering and accommodation.⁵¹ The removal of JETT's monopoly, furthermore, was not a complete liberalisation of the transport sector: new firms were required to have JD10 million in capital and at least 50 buses,⁵² a requirement which did little to encourage smaller-scale competition with JETT.

Other reforms with a direct impact on tourism included the creation of free trade zones, and special areas of land dedicated to tourism development projects such as hotels and resorts. For example, since the mid-1980s, and especially in the 1990s, free trade areas have been formed or planned. Set up in 1973, Aqaba is the oldest, but others include the Zerqa zone near Amman, and plans for a free zone at Queen Alia International Airport. The free zones are aimed both at liberalising the transit of goods, and at increasing the level of foreign investment in Jordan.⁵³ The most important case of dedicating land to tourism has been the sale of land along Jordan's southern coast by the Aqaba Region Authority, aimed at developing resort tourism in the Kingdom, especially since the neighbouring Israeli port and resort of Eilat has almost four times the hotel room capacity of Aqaba.⁵⁴

Economic liberalisation has not spread evenly or thoroughly through Jordan and its tourism sector. The tourism sector retains some cases where few if any changes have been brought about by government efforts at general or sector-specific economic liberalisation. One of the most obvious cases is that of Petra, where there remain problems of poor service, a lack of competition, and high prices.

⁵¹ Shoup, *op. cit.*, p. 282.

⁵² Pam Dougherty, "Peace Pays an Instant Dividend", *MEED*, Special Report, 'Jordan', 21 April 1995, p. 16.

⁵³ On the free trade zones, see the brochure published by the Free Zones Corporation, *Investor's Guide to Free Zones in Jordan* (Amman: Free Zones Corporation, 1995).

⁵⁴ In 1995, Eilat had 5,500 hotel beds compared with Aqaba's 1,314, and a greater variety of hotels and restaurants. See Dougherty, "Peace Pays an Instant Dividend", *op. cit.*, p. 16.

THE PEACE PROCESS AND TOURISM

One of the pivotal events of the 1990s for Jordan — certainly the event which has captured the most attention — was the signing by Jordan of a peace treaty with Israel on 26 October 1994. The treaty was, in a sense, an extension of a broader Arab-Israeli peace process, which began after the Gulf War with the Madrid conference in October 1991, and then led, on a different track, to the signing of the Declaration of Principles between Israel and the PLO in September 1993. However the motives behind Jordan signing an treaty with Israel were very different to those behind the PLO's Declaration.

Despite the uncertainties of peace with Israel, Jordan had strong economic motivations for pursuing the agreement of October 1994 and for opening its economy to trade and investment with Israel. Both the PLO and Jordan stood to make substantial economic gains from a closer political relationship with Israel and a dismantling of the economic barriers which had previously existed between Israel and its neighbours (apart from Egypt, which had made peace fifteen years earlier). In the case of Jordan, however, the potential gains were greater and more immediate, and there was less pressure on Jordan than there was on the PLO, given the PLO's need to integrate the return of land into its agreement with Israel. Further, given the nature of the Jordan's economy and its geographical position in the region, the risks of closer ties with Israel seemed to carry far fewer risks and less possibility for a failure of the peace treaty.

Among the sectors of Jordan's economy most likely to benefit on the shorter term was tourism. One study gives the seemingly pedantic, but in fact quite important, example of airfares from Jordan to Europe and the United States, which fell after the peace treaty was signed because Royal Jordanian Airlines was able to fly over Israeli airspace and save about 18 minutes in flying time.⁵⁵ More broadly, of

⁵⁵ Abdel Jaber Tayseer, "Key Long-Term Development Issues in Jordan", *Economic Research Forum for the Arab Countries, Iran & Turkey (ERF), Working Paper Series* (Cairo: ERF, Working Paper

course, peace with Israel allowed Israeli tourists to visit the Kingdom, which they did in far greater numbers than Jordanians visited Israel. The more general economic benefits of economic ties with Israel — regional economic integration, Israeli investment, more open trade, and the like — also promised to deliver rapidly economic benefits to Jordan. The initial tourism arrival figures for Jordan after the 1994 treaty signal a strong 'boom' in tourism, circumstantially indicating enormous benefits for tourism as a result of Israelis being able to visit the Kingdom.

However the introduction of Israeli tourists to Jordan has not been without controversy or problems. The statistics suggest that tourist arrivals prior to the 1994 peace agreement fluctuated and showed little overall growth in trend during the early 1990s. They also suggest not only that more than 100,000 Israelis per year, since October 1994, were spending money in Jordan, but also that the peace treaty led to a great overall increase in tourist arrivals; the result, perhaps, of the common perception that peace and stability make tourists more inclined to visit a country or region.⁵⁶ To be sure, it is impossible to argue that no economic benefit has come from the increase in tourism numbers from Israel, however there have been some unexpected, unpopular, and less than positive outcomes from the introduction of Israeli tourists to Jordan.

The first point in this respect is that both Israeli tourists, and other tourists travelling from Israel, as a whole spend less time in Jordan than tourists who are visiting Jordan only or who base themselves, during their vacation, in another Arab country rather than Israel. The average length of stay for a tourist to Jordan in 1995 was 3.75 nights, including 4.49 nights for European tourists overall and 4.99 nights for Arab visitors,⁵⁷ and as much as six nights or more for some European

9522, 1995), p. 11.

⁵⁶ This is a common argument in the tourism sector, and was the premise used by Shimon Peres, to state that peace would bring immediate and sizeable economic benefits to Middle East tourism, in his book (with Arye Naor) *The New Middle East* (New York: Henry Holt and Company, 1993), pp. 149-151.

⁵⁷ Preliminary tourism figures obtained by the author from the Jordanian Ministry of Tourism, Statistics Section, Amman, Jordan, in June 1996.

nationals.⁵⁸ However the reputation among Jordanians of Israeli tourists is that they visit Jordan for a very brief stay, often only for the day, and that they "bring everything, including sandwiches and water, with them from Israel."⁵⁹ This led the Jordanian government to drastically increase the entry fees into popular sites such as Petra, in order to ensure that some income was earned from "day trip" tourists from Israel. It was not only Petra which failed to gain all the benefits of tourism links with Israel. The port of Aqaba, immediately next to the much larger and better equipped Israeli port of Eilat, had expected to benefit from the opening of the border with Israel. Instead, many tourists stayed in Eilat, and visited Aqaba briefly if at all. In late 1994, Eilat had 5,500 hotel beds compared to 1,413 in Aqaba, and also had more restaurants and more experience in tourism. After the opening of the border between Eilat and Aqaba, hotel occupancy rates in the latter were lower, not higher, than before, and it appeared that the larger city of Eilat, with its numerical and qualitative advantages in tourism facilities, would dominate over Aqaba.⁶⁰

For these reasons, and perhaps also because of the enormous numbers of Israelis which suddenly appeared on the streets of Jordan, there was considerable popular resentment by Jordanians towards Israeli tourists. The Jordanian Ministry of Tourism and Antiquities quickly placed a cap on the number of Israeli tourists allowed into Jordan, at 900 per day.⁶¹ This was more than the daily average who visited, but was designed as much to appease popular concerns as to restrict Israeli arrivals. The popular conception that tourism creates greater understanding between peoples, and that it would cement the peace treaty with Israel, appears not to have occurred to any great extent in the case of Jordan.

There have been some notable benefits for Jordanian businesses after the peace treaty. A considerable number of new investment projects, financed by both

⁵⁸ *Ibid.*

⁵⁹ Ben Wedeman, "Lukewarm Reception", *The Middle East*, December 1994, p. 34.

⁶⁰ *Ibid.*, p. 34.

⁶¹ Pam Dougherty, "Peace Pays an Instant Dividend", *MEED*, Special Report on Jordan, 21 April 1995, p. 16.

domestic investors and foreign sources, have been undertaken since 1994. In particular, the development of tourism infrastructure has occurred simultaneously with the development of tourism links with Israel. Nine major hotel projects were authorised by the Jordanian Ministry of Tourism for 1996, and another 21 underway from previous years.⁶² Of these, 19 were in Amman, three in Petra, three in Aqaba, two in Karak, and three elsewhere in Jordan.⁶³ This commercial expansion, concomitant with the introduction of Israeli tourists to Jordan, partly reflects the need to meet a growing demand, while also indicating an increasing commercial and international confidence in Jordan's stability and economic future. Further, many companies have expanded or have been created to cater for Israeli tourists, and tourists based in Israel who also visit Jordan. These include all levels of tours, from short one day visits to major eight day tours of several of Jordan's main sites.

Table 6.3: An Economic and Tourism Comparison Between Jordan and Israel

	Israel	Jordan
Population (1992)	5,100,000	3,900,000
GDP (1992)	US\$69,792 million	US\$4,091 million
GDP Per Capita (1992)	US\$13,220	US\$1,120
Official Aid Receipts (1991)	US\$1,749 million	US\$905 million
Tourist Numbers (1993)	1,620,000	765,000
Average Length of Stay	17.8 nights	4.8 nights
Tourism Receipts (1993)	US\$2,110 million	US\$563 million

Source: Table compiled by the author from data in *World Bank World Development Report 1994*, quoted in Ben Wedeman, "Lukewarm Reception", *The Middle East*, December 1994, p. 34 (Table); Israel Ministry of Tourism, *Regional Tourism Cooperation Development Options* (Presented to Prime Minister's Conference on Peace Tourism), Israel, September 1995, p. 2 (Table 1) & p. 3 (Table 2); and Central Bank of Jordan, *Thirty Second Annual Report, 1995* (Jordan: Central Bank of Jordan, Department of Research and Studies, 1995), p. 32 [Table (9)].

The main theme which comes from Jordan's recent tourism and economic

⁶² Preliminary tourism figures obtained by the author from the Jordanian Ministry of Tourism, Statistics Section, Amman, Jordan, in June 1996.

⁶³ *Ibid.*

ties with Israel is that relations with Israel have had only a marginal positive effect on Jordan's tourism sector. Peace with Israel has delivered limited benefits to Jordan, but the pervading assumption, which looked very persuasive in 1994, that Jordan's tourism sector would 'boom' after a peace treaty with Israel has proven to be only partially true. A view, not without merit, has developed among some analysts that King Hussayn has "oversold the peace process".⁶⁴ Jordanian Prime Minister Abdel Salam al-Majali in September 1994 made the interesting prediction that "the short-run fiscal impact of peace [with Israel] is likely to be negative for Jordan".⁶⁵ While not completely borne out by recent experience, the prediction nonetheless contained an element of accurate prophesy. More appropriately, certain elements of the fiscal impact of peace with Israel have been negative, not least of all in tourism.

The most important influence in this respect has been the disparity in economic power between the two states, the dominance of Eilat over Aqaba being a manifestation of this in the tourism sector. Table 6.3 above gives an indication of the contrast between Israel and Jordan, both in terms of overall economic power and in terms of the relative strengths of each state's tourism sector.

A key link between economic and political liberalisation and tourism is evident from the problem of wealth disparity between Israel and Jordan, especially in terms of the public policy debate over how Jordan might best compete with Israel on an even economic footing. One view calls for Jordan to integrate and economically liberalise its economy, in cooperation with neighbouring Arab states. This view argues that Israel's Arab neighbours would compensate for lower per capita income and spending power by organising a numerical advantage; in essence, this view is the economic counterpart of the popular Arab strategic approach to the Arab-Israeli conflict, that a quantitative advantage could be used to compete with Israel's qualitative advantage. By extension, and also in many cases ostensibly, this

⁶⁴ Ilene R. Prusher, "Despite Peace, Jordan Sees Tourist No-Show", *Christian Science Monitor*, 14 August 1996, p. 7.

⁶⁵ Wedeman, "Lukewarm Reception", *op. cit.*, p. 34.

argument calls for economic liberalisation in the Arab states which would cooperate to compete with Israel. Others have called simply for economic liberalisation in Jordan, regardless of whether it enters into some formalised trade and economic cooperation with its neighbours. The magazine *The Middle East* quotes a Jordanian economist, Dr Riyadh al-Momani, as saying that "Jordan's ability to benefit from peace depends on 'its impact on ordinary Jordanians by raising their standard of living. This will require internal reforms and elimination of all forms of administrative corruption and other problems'".⁶⁶

Regional economic integration, however, whether in competition or cooperation with Israel, is not without its dangers. In the case of tourism, and related areas such as international private investment and open borders, integrated states and economies mean that instability in one state has a greater impact in the other states. While Jordan could potentially benefit from closer tourism ties with Israel, or with other Arab states, this would deepen the negative consequences on Jordan from, say, domestic instability in Israel or Egypt. This is typically the case in Middle East states bordering Israel anyway, regardless of the state's relations with Israel, but has been felt particularly strongly in Egypt during the 1980s and 1990, and in Jordan since 1994. In particular, in situations where tourists are based in Israel and travel to Jordan as a side-trip, international instability will have a strong affect. During Israel's 1996 'Grapes of Wrath' operation in Lebanon, for example, the tourism sector in Jordan (and Egypt) suffered a short but sharp decline in visits by Western tourists, tourists travelling from Israel, and Israeli tourists.⁶⁷ Although Jordan was a considerable distance from the conflict in Lebanon, tourists were deterred by the remote threat of a broader regional conflict, and by the anti-Israel sentiment in the Arab world created by 'Grapes of Wrath'.⁶⁸ Direct violence against Israelis, or

⁶⁶ *Ibid.*, p. 34.

⁶⁷ Author's interviews with Mr Ghassan Oweis, Registered Jordanian Tourist Guide and Mr Habib Habbash, Ministry of Tourism, Amman, 25 & 26 June 1996. A similar decline in the case of Egypt was expressed to the author in an interview with Mr Paul Malcom, Director of Marketing, Marriott Hotel Zamalek, Cairo, 16 May 1996.

⁶⁸ *Ibid.*

foreigners thought to be Israeli, has been very limited in Jordan, but serious events have occurred. The 1997 attack on an Israeli school bus by a Jordanian soldier, for example, was widely reported in Israel and throughout the world. Less sinister, but nonetheless important, have been periodic reports by the media in Israel of cases where Israelis have been poorly treated or discriminated against while travelling in Jordan.

The overall economic and tourism outcomes of Jordan's peace with Israel appear to be positive, however there are negative consequences of the peace process which accompany the positive aspects. The Jordanian government's gradualist approach to economic liberalisation, so as to minimise the political costs and maximise the benefits of reform, has occurred concomitantly with the peace process since 1994. Recent experience would indicate that economic liberalisation and the peace process are not completely aloof of each other. As with the broader attempt in the 1980s to use tourism growth to allay the need for economic liberalisation and restructuring, the Jordanian government appears to be using the peace process, at least to some extent, to boost the economy and to limit the need for more extensive economic liberalisation. The importance of tourism in Jordan's trade and economic relationship with Israel would seem to be indicative of this.

CONCLUDING REMARKS

There are several observations that can be made about the relationship between tourism and economic liberalisation in Jordan.

One interesting feature of its tourism strategy, in contrast with Egypt, is the strong role that the state has played in tourism development and management. In many other states in the Middle East — Egypt, but also Tunisia, Turkey, Morocco, and even to some extent Syria — the state has minimised its role in tourism to the extent possible, as an aspect of its more general retreat as manager of the economy.

In the case of Jordan, the state's strong role may prove to be a positive factor in the development of tourism: in many neighbouring states, the self-destructive nature of tourism, especially the problem of overly rapid tourism expansion, threatens to undo many of the tourism development policies that have been introduced. For example, the study by Soraya Altorki of the American University in Cairo (AUC) discussed in Chapter Four, highlights the negative aspects of tourism on rural Egypt.⁶⁹ Such problems are largely generic to tourism, but to the tourism sectors of developing economies in particular. In Jordan, the government seems to be taking the guiding role that appears so necessary for the smooth growth and development of tourism, and appears to be addressing the negative affects of tourism. It has retained control over key areas of the tourism sector, such as resort and hotel development, labour laws, and the like. The government has also, to date, resisted pressure to introduce privatisation — another aspect which sets it apart from neighbours such as Egypt or Tunisia. Privatisation often enters Jordan's economic agenda (and its leaders' political lexicon), but has so far not been seriously implemented. For example, despite being an early contender for privatisation in the 1980s, Royal Jordanian Airlines has been continually postponed for over a decade. When the privatisation debate began in 1986 and 1987, Royal Jordanian was one of the first firms considered for (partial) sale. The airline had expanded considerably in the 1970s and 1980s, but had also had several years during the 1980s in which it registered a financial loss; in 1983 and especially in 1984, while in 1985 it managed to avoid a deficit only through asset sales.⁷⁰ The original plan was to offer 30 percent of the airline to the public and 10 percent to its employees in late 1987, followed in 1988 by a further sale of between 20 and 30 percent to Arab and Jordanian investors. The aim was for the government to retain about 15 percent of the carrier, combining that with at least 36 percent private Jordanian ownership to keep the majority of the

⁶⁹ Soraya Altorki, "Tourism Development on Egypt's Desert Northwest Coast", speech to the *Third AUC Research Conference "Sustainable Development in Egypt"*, American University in Cairo, Cairo, 22 April 1996.

⁷⁰ Dougherty, "Jordan Aims for Sharper Commercial Edge", *op. cit.*, p. 31.

company in Jordanian hands.

The fact that Royal Jordanian was not privatised as planned, highlights the ways in which political and economic instability have a direct impact on the liberalisation process in the tourism sector. After the privatisation announcement in 1987, Royal Jordanian in 1988 registered one of its worst financial years on record — a loss of JD11.7 million (US\$16.97 million) — due almost exclusively to a drastic devaluation of the currency in 1988.⁷¹ The currency devaluation was a result of Jordan's rapidly deteriorating financial position, and especially of its foreign debt, which was consuming a large percentage of its export income. Although a devaluation of the dinar may have increased the foreign income from a sale of the airline, the resulting loss eroded any potential gain, and the sale was shelved. Before the airline had recovered from its losses in 1988, the Iraqi invasion of Kuwait and the subsequent 1990-91 Gulf War occurred, disrupting Royal Jordanian's operations and causing a 19.9 percent decline in its carriage of passengers.⁷² Routes to both Baghdad and Kuwait were lost, and other regional routes were badly affected by a regional slump in tourism during late 1990 and 1991. Only in 1992 did the airline return to the passenger loads and profitability of the mid-1980s, at which time the privatisation preparations were again commenced. However, largely as a result of poor performance and poor management in the late 1980s and early 1990s, by 1992 Royal Jordanian was carrying an enormous debt, costing about US\$40 million a year to service, which eroded profits and reduced the potential sale value of the airline. By late 1998, the Jordanian government was still talking about the privatisation of the airline, and had only just begun the process of commencing the privatisation process.⁷³

Of course, under the broader definition of privatisation proposed by Nazih

⁷¹ Simon Edge, "RJ Flies Out of the Clouds", *MEED*, Special Report 'Aviation', 11 June 1993, p. 16.

⁷² Percentage figure calculated from statistical data presented in *Ibid.*, p. 16.

⁷³ See Pam Dougherty, "Cement Sale Fiasco Masks Progress on Privatisation", *MEED*, 1 May 1998, pp. 2-3.

Ayubi⁷⁴ and others, there has been some move towards greater competition and private sector freedom in Jordan's tourism sector. The dismantling of JETT's monopolistic position in transportation is one example, as is the attempt to enhance competition in the hotel sector, where new investment has been enormous in the 1990s after having previously been a 'seller's market' where low supply allowed hoteliers to charge high prices and supply poor quality service.

To the extent that there is a link between economic liberalisation program and tourism in Jordan, it is largely that tourism has been used to cushion some of the financial hardships caused by liberalisation. This has been a common feature of the strategies of the states discussed in this thesis: governments are attracted to the labour-intensive nature of tourism, and the hard currency that foreign tourists provide for the economy. Further, tourism is not a complex sector to develop and does not usually rely on large injections of capital or expertise. As a sector that has expanded only in the last decade or so, it carries with it few political risks, either to the government, its leadership, and its allies, or to the stability of the country more generally. In large part, this accounts for the juxtaposition in the 1990s of tourism and economic reform as pivotal aspects of Jordan's political economy.

The peace process with Israel offers Jordan further opportunity to develop its tourism sector. Many of the visitors to Israel, who would have otherwise not visited Jordan at all, are now able freely to include Jordan in their itineraries. And Israeli tourists themselves are also able to visit Jordan. This presents a mixed blessing, of course, as many Jordanians want the money that Israeli tourists bring, but do not want the tourists. Some of the concerns about closer ties with Israel do have some validity, especially given the discrepancies in wealth and economic size between Jordan and Israel. The fear of being swamped by the Israeli tourism sector is a very real one for many Jordanians in the tourism sector. This issue highlights a unique

⁷⁴ Nazih Ayubi, "Etatisme versus Privatization: The Changing Role of the State in Nine Arab Countries", *Economic Research Forum for the Arab Countries, Iran & Turkey (ERF) Working Paper Series*, Working Paper 9511 (Cairo: ERF, 1995), pp. 7-9. Ayubi's ideas are expanded upon in chapters Three and Four of the thesis.

facet of the liberalisation of tourism. The government has been willing to promote tourism by Israelis and others arriving from Israel, but under the pressure of political opposition to such a strategy, the government has cunningly responded by appearing to limit its liberalisation efforts, while in fact introducing measures with little, if any, impact. That a limit was placed on the number of Israelis that could visit Jordan, but that this limit was considerably higher than the actual numbers, represents both a clever political trick but, more importantly, also indicates the unwillingness of the government to be associated with unpopular aspects of reform or change.

This is a general characteristic of both tourism and economic liberalisation in Jordan. Given the government's slow economic reform in the 1980s, due mostly to political pressure from those most affected by reform, tourism was used instead as a mode of economic development. The government's hesitation in undertaking dramatic reform is illuminated by a comparison of its actions on economic liberalisation and tourism, where one has been used in lieu of the other, where one has often been used to supplement or compliment the other, and where in the case of both, a gradualist approach has characterised government reforms and policy.

But in light of the above, it must also be remembered that Jordan faces a unique tourism structure, with its potential perhaps more limited than many of its neighbours. In this context, the steps that have already been taken are more ambitious and bold than they may initially appear, and the tourism sector's performance has been, overall, remarkably positive given the geographic, political, and economic position in which Jordan finds itself.

CHAPTER SEVEN

CONCLUSION: OBSERVATIONS ON THE RELATIONSHIP BETWEEN ECONOMIC LIBERALISATION AND TOURISM IN THE MIDDLE EAST

The 1990s have seen a dramatic change in the economic development language and policies of the Middle East. In many cases, such as the privatisation of state assets in Egypt, state policies and actions have not kept pace with the language of reform. Nonetheless, a guiding strategy of separating the economic realm from the political one appears to be underway, with the state having begun to cede to the private sector — albeit gradually and with some hesitation — the commanding heights of the economy. The position of tourism in the economy, and the changes that have been made to the structure and functioning of the sector, have played an important role in this transformation.

To a large extent, the region faces little option but to adopt new models of economic development based on economic liberalism and privatisation. With the failure of many aspects of state-led development (SLD) and import substitution industrialisation (ISI), and with the collapse of communist models of economic planning, the few remaining development policy alternatives suffer from a lack of legitimacy or come with unappetising political implications for the state. The most obvious example of this is radical Islam, which at the beginning of the 1990s seemed to threaten the survival of a number of Middle Eastern regimes, including most notably those of Egypt and Algeria. However, one of the key sources for a decline in the power of, and support for, revolutionary Islamic forces — apart from the violence perpetrated by some groups, which may be the key reason¹ — has been

¹ Fawaz A. Gerges, "The Decline of Revolutionary Islam in Algeria and Egypt", *Survival*, 41, 1, Spring 1999, pp. 113-125.

their inability to formulate and articulate a viable economic alternative to the political economy status quo, of which economic reform forms a key aspect. Even those groups and forces in society most disillusioned or marginalised by economic liberalisation, and most likely to find solace in the rhetoric of radical Islamic ideology, have been unable to counter state economic policy with a believable and inherently different policy prescription. Their focus has been on attacking the legitimacy of the government rather than on developing their own credentials. While there is not necessarily a conflict between Islam and free markets (with the exception of a small number of free market characteristics, such as *riba*, the collection of interest) the economic policies that have been suggested by Islamic groups tend to be eclectic concoctions of left-leaning social policies mixed, in essence, with basic étatist economic management models.² With the status quo seemingly untenable, and with a paucity of development options available to the region, the governments of the Middle East and their key elites appear to have reluctantly accepted the need for some degree of economic reform and further integration into the international economy.

This is not to say that the state has galloped away from its role in the economy, and nor should it — a small state and a strong state are not mutually exclusive, and in fact may represent the best option for late developers occupying a weak position at the periphery of the international economy. Nor is it to say that economic liberalism is marching unchallenged to the forefront of Middle Eastern political economy. Factors such as the economic pervasiveness of the state, the weakness of business groups and the private sector, and the size and power of groups with vested interests in the étatist elements of the region's economies, have all contributed to limiting the pace and extent of economic reform.

It is without argument, however, that the role and importance of both

² Seyyed Vali Reza Nasr, "Islamic Economics: Novel Perspectives", *Middle Eastern Studies*, 25, 4, 1989, especially pp. 524-525. Gerges, *op. cit.*, cites the lack of economic policy imagination as also being a reason for the decline of support for political Islam.

economic liberalisation and tourism in the Middle East have increased significantly during the 1990s. The relationship between the two takes a number of forms, some of which are particular to certain states, and many of which are generic. The pages that follow summarise this relationship in the case study states of Egypt, Syria, and Jordan, and also discuss the broader implications of the relationship for the region.

ASPECTS OF THE RELATIONSHIP BETWEEN ECONOMIC LIBERALISATION AND TOURISM

Economic Problems, Economic Liberalisation, and Tourism

The first and most obvious relationship between economic liberalisation and tourism is that formed through state strategies and policies aimed at addressing economic malaise and structural economic problems. This has typically taken the form of tourism being proposed as a counter to the negative social impacts of economic liberalisation.

One of the key sources of Egypt's dilatory economic reform prior to the 1991 agreement with the IMF was the fear of popular unrest as a result of the introduction of austerity measures. The Egyptian government, of course, had already faced such revolts in the past, and the threat of further unrest was real indeed. In Jordan the popular opposition to painful reform was equally strong — the Ma'an riots that broke out in April 1989 were also the result of an agreement with the IMF that included tough economic prescriptions, including a reduction in government subsidies. One of the major criticisms of the IMF and other multilateral lending bodies has been the painful economic remedies that they routinely apply to states that seek their financial support.³ Without arguing the relative merits and weaknesses of the structural adjustment programs that such bodies encourage, the key point is that Middle eastern

³ See for example Radha Sinha, "Economic Reform in Developing Countries: Some Conceptual Issues", *World Development*, 23, 4, 1995, pp. 557-575.

governments — and governments throughout the developing world, for that matter — are fearful of the political impacts of economic reform.

Economic liberalism and greater integration into the global economy, in itself, also present challenges to national governments and new sources of domestic opposition and political risk. Developing states face the prospect of entering the world economy, and competing in it, from a position of weakness.⁴ They are forced to look internationally for capital and technology, and to compete with other developing countries for it. They are subject to the whims of international portfolio capital, and of foreign direct investors who can easily withdraw their capital in search of a new, cheaper place to do business. Their firms are often at a disadvantage in competing with major multinational firms, given the greater experience, access to funding, and economies of scale enjoyed by the latter.

To the governments of developing states, therefore, economic liberalisation is fraught with risk. In the case studies of this thesis, and in the cases of Egypt and Jordan in particular, tourism development has been adopted as a counter to the effects and risks of reform and international economic integration. To governments faced with the need for economic liberalisation, tourism is an attractive counterbalance to many of the key sources of public discontent with reform: tourism creates employment, earns hard currency, encourages development outside of traditionally wealthy areas, and is often attractive to foreign investors. That changes to tourism policy and economic reform have often occurred at the same time, or that tourism promotion has typically taken place in times of economic hardship, are indicative of the political tactical logic of the state.

The example cited in Chapter Four (on page 139) of tourism leading directly to one million Egyptian jobs, and another 4-5 million indirectly, highlights the importance that tourism can gain in state political economy strategy. Egypt's tourism

⁴ This is discussed at greater length in Iliya Harik, "Privatization: The Issue, the Prospects, and the Fears", in Iliya Harik & Denis J. Sullivan (eds), *Privatization and Liberalization in the Middle East* (Bloomington: Indiana University Press, 1992), especially pp. 13-18.

sector, as the largest of the states used as case studies in this thesis, serves as a strong example of the indirect political influence wielded by the wealth and income potential of tourism. Tourism has reached the point in Egypt where, as the single largest source of foreign income and a major source of employment, it has become vital to a critical mass of Egyptian people, and to the government. The main reason that Islamist opposition groups in Egypt have targeted tourism is because of the economic benefits that foreign tourists bestow on a government and the bottom line of its budget.⁵ At the same time, of course, as tourism has grown in value and economic importance, the Egyptian government has been willing to go further in its conflict with radical Islamists. Where tourists' lives are threatened by Islamist violence, the state has become increasingly violent in response, to protect the economic impacts of tourism as much as the tourists themselves.

A further reason for the promotion of tourism as a financial remedy for the pain of liberalisation is the comparative advantage that many states in the region enjoy in tourism. This is one situation where much of the Middle East, and certainly the case studies presented in this thesis, do not face a disadvantage in competing in the international marketplace. Tourism can thrive in the absence of large amounts of capital (although some investment in infrastructure is necessary), and no particularly scarce technology or labour skills are required. One of the key factors that make a product or service valuable is a condition of imperfect competition — that is, where a product is unique to a place, country, or firm, or where there is a small number of firms offering a product that is in demand. In such circumstances, the price of the product is higher than it would otherwise be, usually leading to supernormal profits. In the case of Egypt there has always been strong tourist demand to visit the pyramids. As an extreme example, Egypt enjoys an imperfect competition advantage because it is the only place where tourists can visit the Sphinx or the Giza Pyramids. Many other parts of the Middle East enjoy a similar advantage: Jordan has sites such

⁵ Denis J. Sullivan & Sana Abed-Kotob, *Islam in Contemporary Egypt: Civil Society vs. the State* (Boulder: Lynne Rienner, 1999), pp. 71, 85-86.

as Petra, which is unique to the region. In states where there are no unique or distinguishing attractions, a comparative advantage in a certain area of tourism can be created. The United Arab Emirates, for example, lacks major attractions such as the Pyramids or Petra, but competes for tourists by highlighting its climate, shopping, and desert scenery. That there exists in many states a comparative advantage, with the potential for large profits (and for governments, revenue and employment creation), is an important reason why tourism is often chosen as a financial buffer to the painful or controversial impacts of economic reform.

This link, however, leads to the question of why tourism is often one of the first economic sectors to be liberalised? Surely if reform is painful, then this would apply to the economic liberalisation of tourism as well, and would have an impact on the benefits created by tourism? The economic liberalisation of tourism stems from several goals. The first and most obvious is that state-led economic reform of tourism is, of course, aimed at making the sector larger and more efficient, thereby increasing its contribution to the economy. In so doing, tourism is encouraged to counter the negative or painful impacts of reform in other sectors and at the macroeconomic level more generally. The economic liberalisation of tourism is not, therefore, necessarily of the same characteristics as economic liberalisation in other sectors or across the economy more broadly.

Further, the reform process has little painful impact on the tourism directly. This stems partly from the fact that many tourism reforms occur from a very low base: before tourism has been fully enmeshed in the political economy, before key elites necessary to the government have formed a powerful position in the sector, and before broader social forces have gained an interest in the tourism status quo. It is such characteristics that set tourism apart from, say, agriculture, where the political issues mentioned make reform of the sector a dicey challenge for a government.

Finally, the tourism sector has also led the way in economic liberalisation

because of its demonstration effect; that is, as a tool of increasing popular and elite support for economic liberalisation elsewhere in the economy. The privatisation program in relation to tourism in Egypt is one such example. The sale of some of the Egyptian government's tourism assets was chosen as an early stage in the privatisation process because of, from the state's perspective, its politically innocuous nature. The program involved little more than the sale of some land, buildings, and ships. As the management of hotels and cruise ships was already in (foreign) private hands, the sale of the assets that had remained under government ownership would raise money and not cause any job losses. Further, such assets were inherently profitable, in contrast with some of the other assets up for sale, such as inefficient state-owned manufacturing and trading enterprises. It has therefore been adopted as a method of enhancing awareness of, and support for, the privatisation process, while also raising money and providing to potential investors evidence of government commitment to, and initial success in, state divestiture. By extension, it has also served as a counter to problems with liberalisation: as a source of one-off government revenue, as a counter-argument to the critics of economic reform, and as a demonstration of state commitment to reform to outside bodies such as lenders.

Social Actors as a Link between Economic Liberalisation and Tourism

The political dynamics within the political economies of the Middle East, as they relate to both the process of economic reform and the structure of tourism, also create a relationship between economic liberalisation and tourism. The dynamics of elite politics in the region is important in this respect.

The most clear example of such elite dynamics in the thesis was from Syria, where the patrimonial web of elite politics has been expanded to include new business elites, provided with their power through a combination of economic

liberalisation across the economy and concomitantly within the tourism sector. The business opportunities and economic power bestowed by the Asad regime on major businesspeople such as Aidi, Nahhas, and al-Attar demonstrate a clear link between economic reform and tourism. In the case of A'idi and Nahhas, the fact that their tourism establishments were created as an aspect of *infatih* highlights the link. This is also consistent with the Asad regime's strategy of crisis-led economic reform occurring within the boundaries of the state's existing political power structure: the creation of these elites serves to strengthen elite support for the Syrian leadership and its economic reform process, while at the same time producing benefits for the reform process and contributing towards its development and success.

The symbiotic relationship between the state and the business elites serves both sides well, and has evolved from a simple mode of reform into a tactic for regime maintenance and power consolidation, and in the case of the key business elites, as a strategy for wealth creation and the development of business advantage in the tourism industry and in other sectors. The elites serve as mouthpiece and representatives of the regime to their business and social constituencies, and are tied into the regime for their survival. To the extent that the state consults with the private sector on policy matters — usually on economic policy, if that — the elites also act as a conduit to such communication. The incorporation of business leaders into Asad's circle of elites has been a key characteristic of the guided economic transformation that is taking place in Syria.

This is somewhat in contrast to Egypt, where the appellation 'guided' is more appropriate in the case of political, rather than economic, liberalisation. In Egypt, nonetheless, social actors such as business associations have also played an important role in forming a relationship between economic liberalisation and tourism. To be sure, the economic liberalisation process has created a new class of businesspeople with much to be grateful to the state for providing. Unlike in Syria, however, the businesspeople are not as intimately tied into the regime structure, and

nor are they as reliant on the regime leadership for their financial survival. Many have, of course, made their money from state sources, as with former politicians from state-owned enterprises who have utilised *infitah* as a means of privatising their wealth and creating new wealth through personal political relationships. But the role of groups such as the Egyptian Businessmen's Association and the various Chambers of Commerce— many members of which are genuine traders and businesspeople with limited if any political connections⁶ — also form an aspect of the relationship between economic liberalisation and tourism that is different from the Syrian example.

The business associations and other actors in the Egyptian political economy act as both a force on the policy-making process and as a political counter-weight to the opponents of economic liberalisation.⁷ They have been especially active in the tourism sector, given their experience in this sector (even in the pre-*infitah* days), the ease of entry into the tourism industry, and simply the pivotal position of tourism in the economy. These business groups are a powerful lobby to the state for greater economic reform, both for self-serving concessions such as tax holidays and a relaxation of labour laws, but also in a broader sense, through their links with aid donor states, foreign banks, Egyptian capital held abroad, and international firms.

These groups, including most notably the Egyptian Businessmen's Association, also have their similarities with the Syrian business elites. The Egyptian Businessmen's Association was established by law in part to act as a source of support for Sadat's *infitah* policies. Indicative of a political agenda, the Egyptian Businessmen's Association was established during Sadat's presidency in 1978 based on Law 32 of 1964. Beyond incorporating genuine private sector businesspeople, it

⁶ Many of the Egyptian businesspeople who have grown wealthy under *infitah* are members of the old commercial classes, who sat out the Nasser period and survived by being small-scale or by being outside of the major economic sectors that Nasser sought to reform. Unlike the *munfatiḥun* (or new businesspeople that made their money from unproductive enterprises established under *infitah*), they decry the *munfatiḥun* as corrupt and without contribution to the economic development of Egypt. See for example the discussion of this in Caryle Murphy, "The Business of Political Change in Egypt", *Current History*, January 1995, pp. 18-22.

⁷ *Ibid.*, pp. 18-22.

also includes "former cabinet ministers, government officers, and public sector managers."⁸ The state works with it on the promotion of reform to the wider community, but it is also under strong state control so that it does not threaten the state by pushing for too rapid a process of economic (or political) reform. Likewise, some of the economic liberalisation of tourism can be traced to the state's attempt to placate business groups and their members, especially given the relative ease with which tourism, in contrast with other industries, can be opened to the private sector. The initial liberalisation undertaken by Sadat in the early and mid-1970s specifically targeted the development of private sector involvement in tourism. That private investment in tourism rose dramatically in the mid-1970s illustrates the strong and positive response of business to the state's offers of tourism reform and development. One of the reasons that the early stages of *infatih* included considerable corruption and profiteering was because of the state's attempts to buy private sector support for economic reform, prominently through the liberalisation of tourism.

In the case of other social actors and forces, their role in the relationship has been more limited. But this is, in itself, illuminating. Why, for example, has there been such a strong opposition mounted to economic reform in general by various groups and forces (for example, trade unions, bureaucrats, and party officials), but so little opposition to the economic reform of tourism?

One reason is the place of tourism within the political economies of the region and the public policy implications. As a relatively new area of focus in economic strategy, the most obvious point to make is that there are few vested interests against tourism. With the exception of policies that directly threaten existing interests, such as the formation of ZAS or reforms to the Ministry of Tourism in Egypt, the beneficiaries of state-led policies have not mounted opposition to tourism to anywhere close to the extent in, for example, agricultural reform,

⁸ Ibrahim Awad, "Socio-Political Aspects of Economic Reform: A Study of Domestic Actors' Attitudes towards Adjustment Policies in Egypt", in Heba Handoussa & Gillian Potter (eds), *Employment and Structural Adjustment: Egypt in the 1990s* (Cairo: American University in Cairo Press, for the International Labor Organization, 1991), p. 279.

privatisation policy, or the corporatisation of state-owned manufacturing enterprises.

Furthermore, tourism has the potential to deliver broad benefits, whether financial or political, to a much larger constituency than most other sectors. This includes features such as a strong multiplier affect to tourism spending, ease of entry by firms or individuals into the sector, the likelihood of job creation rather than loss during the corporatisation and reform of the tourism sector, and the broad geographic spread of the tourist industry. There has, of course, been opposition to the social problems that accompany tourism, such as the potential for tourists to damage traditional social structures and values. On the whole, however, this has been most evident in groups that oppose economic reform most vocally, such as Islamist groups. It is also worthy of note that many supporters of economic liberalisation, such as the traditional merchant class (that forms a key component of the chambers of commerce, professional associations, and other social actors), are also very religious. They are attracted to tourism for its potential profitability, and thus are far less inclined than they would otherwise be, to oppose the development or reform of the sector. This characteristic extends beyond wealthy business actors to small merchants, tradespeople, and others that rely on tourism for income, and is therefore a key factor stifling opposition to tourism in general, and to the development and economic reform of tourism as well.

Radical Islamic Groups, Economic Liberalisation, and Tourism

There has been a great deal of attention paid by the popular press in the West to attacks against tourists by radical Islamist groups in Egypt. Forming part of the Islamic opposition to the state, these attacks were at their most frequent in the period from 1992 to 1994, and reached their most violent in November 1997, when 59 tourists and four Egyptians were killed in an armed attack by Islamic militants at Luxor, in upper Egypt. With Egypt's oldest and most popular Islamic group, *Ikhwan*

al-Muslimun ("the Muslim Brotherhood") having disavowed such violence, the main radical Islamist group adopting violence has been *Gama'a al-Islamiyya* ("the Islamic Grouping"). It is important to note, therefore, the diversity of Islamic groups in Egypt (and elsewhere in the Middle East), and the fact that their views on tourism often differ considerably. Some of them, for reasons outlined in Chapter Two, do not see tourism as being in conflict with Islamic principles. The accommodationist *Ikhwān*, for example, are very active in promoting social welfare — some of their activities, such as the operation of job training programs and language education, are at the fringes of tourism. Their members are commonly found in the private sector. It is only the more militant and violent groups that have opposed tourism, and more often than not, as an economic strategy against the government rather than against the tourism sector *per se*.

The ways in which the negative social impacts of economic liberalisation have, in turn, a negative impact on tourism is illustrated in the case of Egyptian Islamic militancy. The segments of society most likely to be attracted to radical Islam are those that are marginalised or excluded from the benefits of economic reform, or who pay the highest price of austerity measures within the reform process.⁹ This includes the unemployed and underemployed (often well-educated), and the populations of poor urban areas that rely on government subsidies to limit the price they pay for necessities. In the case of the most militant groups, their response to what is perceived as an illegitimate government imposing financial hardship on the poorest sections of society, is to conduct an economic war on the government. Tourism is a primary target, in the case of Egypt, because of its importance to the economy and to the government's economic development agenda, and often because tourists are also viewed as being synonymous with the foreign

⁹ See Anoushiravan Ehteshami & Emma C. Murphy, "Transformation of the Corporatist State in the Middle East", *Third World Quarterly*, 17, 4, 1996, pp. 753-772. An excellent and detailed study of the political economy of Islamism in the case of North Africa can be found in Mark Tessler, "The Origins of Popular Support for Islamist Movements: A Political Economy Analysis", in John P. Entelis (ed), *Islam, Democracy, and the State in North Africa* (Bloomington: Indiana University Press, 1997), pp. 93-126.

supporters of the government and economic reform. Since tourism is highly susceptible to political instability and threats of physical danger, the impact on the economy of Islamic attacks on tourism has been profound. There are, therefore, negative aspects to the relationship between economic liberalisation and tourism; in this case economic liberalisation, by antagonising and radicalising certain segments of the population, can have a negative impact on the development of the tourism sector.

International Actors and Events in the Relationship between Economic Liberalisation and Tourism

The case studies in this thesis have demonstrated that international forces and actors also form part of the relationship between economic liberalisation and tourism in the states under study in particular, and in the Middle East in general. The international dimension takes several forms.

The influences of globalisation and international stability are especially important to the development of both tourism and liberalisation, and act as a link between the two by supporting, or impairing, the pace and outcomes of each, as well as the ways in which tourism and reform interact with each other. The most obvious link is the ways in which economic and social internationalisation and global stability can nurture reform and tourism concomitantly, reinforcing each both individually and together. The well-established link between stability and tourism¹⁰ is equally applicable to economic reform as well — witness the economic pain caused to Jordan by the 1990-91 Gulf war and the subsequent sanctions against its major trading partner, Iraq. Regional and international stability is important as a method for increasing private sector trade and investment, for reducing military expenditures, and for the encouragement of foreign assistance, loans, and bilateral

¹⁰ In the case of the Middle East, I refer especially to the article by Yoel Mansfeld, "The Middle East Conflict and Tourism to Israel, 1967-1990", *Middle Eastern Studies*, 30, 3, 1994, pp. 646-667.

and multilateral agreements with developed states.¹¹ The impact of this on both the economic reform process and the tourism sector is obvious. Likewise, when the situation is in reverse, both reform and tourism have suffered. Stability at the domestic level is obviously also important. In Egypt, Islamist and popular secular opposition to tourism and economic reform, often in combination, have had not just an economic effect, but also an impact on the pace of economic liberalisation.

The place of the Arab-Israeli conflict and, in the 1990s, the Middle East peace process, has been particularly influential on tourism and economic liberalisation. For the Arab states neighbouring Israel, peace presents an economic double-edged sword. In the case of Jordan, there is the potential as a result of the 1994 peace agreement to link greater economic openness and reform to the tourism opportunities that have emerged from an open shared border with Israel. The peace agreement created the opportunity for tourists to travel an itinerary that includes Egypt, Israel, and Jordan.¹² If and when Syria signs a similar peace agreement with Israel, the opportunities will be even greater, allowing tourists to travel by land from Egypt to Turkey without having to conceal that they have been, or plan to go, to Israel. The potential for closer cooperation between Israel and the Arab states in tourism promotion and investment would also have a positive impact on the development of Jordanian tourism (and in neighbouring states). It would include the possibility of contributing towards the economic liberalisation of tourism in Jordan through the provision of Israeli expertise and investment, and by allaying some of the shocks of tourism reform and a more open tourism sector.

On the other hand, as the thesis has demonstrated with the example of Aqaba

¹¹ See for example E. Riordan, U. Dadush, J. Jalili, S. Streifel, M. Brahmabhatt & K. Takagaki, "The World Economy and Implications for the MENA Region, 1995-2010", *Economic Research Forum for the Arab Countries, Iran & Turkey (ERF) Working Paper Series*, Working Paper 9519 (Cairo: ERF, 1995), especially section 4, entitled "Opportunities in the External Environment for Reforming Countries", pp. 66-76.

¹² This point and the one that follows were made by David Beirman in his speech, "Tourism and its Role in Facilitating the Israeli-Arab-Palestinian Peace Process", presented to the *Australasian Middle East Studies Association (AMESA) Annual Conference*, Australian National University, Canberra, Australia, 8 October 1994.

in Jordan, a liberalisation of tourism through, or as a result of, peace with Israel also poses new challenges and threats to the sector. A genuinely open tourism industry in Jordan and Israel, with tourists being able to travel and choose freely between the two, requires that Jordan be able to compete effectively with Israel. The example given of the variations in the number of facilities in Aqaba as compared to Eilat highlights the other edge of the peace process "sword".

Finally, it is worth reiterating the role of multinational firms and other international actors as a link between economic reform and tourism. On the whole, their position as a political link is limited. In most cases, private sector lobbying of the state for the economic reform of tourism has been undertaken by the indigenous private sector. Foreign capital has played a role, nonetheless, through bodies such as bilateral chambers of commerce and, of course, through lobbying by the governments where they are domiciled. It is difficult, however, to make any generalisations about the role of foreign capital in the case study states included here. Egypt provides the most likely example of international pressure, both from the private sector and from foreign governments, playing a role in the economic liberalisation of tourism. As shown, however, the power of foreign influences on the reform process was for a long time stifled, by the greater political concerns of the Mubarak government and by a lack of coordination on the part of foreign actors. In the case of the tourism sector directly, foreign private capital has not played a strong role in urging reform because of its marginal role in tourism, at least in contrast with other sectors. In hotel management, for example, the foreign private sector has long been involved in the management side, and does not normally look to own the land and assets that they manage. Their interest in lobbying for privatisation, therefore, has been negligible. In terms of encouraging, say, taxation reform or labour reform, international firms have been more vocal, but this is not something unique to foreign firms operating in the tourism sector. It has been a strategy of firms from across the economy, and dominated by domestic rather than foreign capital as a result of the

preferential treatment given to investment by the latter.

The role of other actors such as international financial institutions, most notably the International Monetary Fund, has been more substantial. Again, however, the IMF had difficulty in convincing the Egyptian government to quicken the pace of reform up until 1991, when improved external conditions and less domestic opposition to reform provided a moment of opportunity for another step towards economic liberalisation. As with international private capital, however, the role of the IMF in tourism has been limited essentially to its encouragement as an area of comparative advantage, employment creation, and accelerated privatisation. For the IMF, financial stabilisation and macroeconomic liberalisation have been of more concern than policy in particular sectors.

EGYPT, SYRIA, AND JORDAN: LESSONS FOR ECONOMIC LIBERALISATION AND TOURISM

Through an examination of the relationship between economic liberalisation and tourism, several lessons can be drawn about their respective characteristics and their relationship, for other states in the Middle East and in the developing world.

The first point to make in this regard is that there are clearly identifiable different forms of the economic liberalisation of tourism. Not all states undertake, or need to undertake, the same types of policy in the tourism sector, nor do they necessarily pass through the same stages when attempting to develop and expand their tourism industries. It is interesting to note that, for example, Syria is often equated with being the most hesitant state in the Middle East to undertake economic liberalisation, and yet it is home to some very significant private sector actors. There is nothing quite like Cham in Egypt or Jordan, even though they appear more committed to the development of their respective indigenous private sectors. The path of private sector development in the economic liberalisation of tourism in Syria

— at least in this regard — is quite unique.

With differing degrees of success, the states of the Middle East have chosen to focus on different types of tourism, and this has had a strong impact on the pace and mode of economic liberalisation adopted. The most focused state, not included as a case study here, is Tunisia, where since the 1960s there has been a coordinated and concerted effort to target wealthy European leisure tourists.¹³ Overwhelmingly but not exclusively, Tunisia has marketed itself as a recreation destination, as a place to relax on the beach. Of the states included as case studies in the thesis, Egypt has the broadest and largest tourism sector catering to wealthy foreign leisure travellers. As a result of this approach, Egypt has also been associated with the most ambitious tourism liberalisation and development program of the region. It has championed reform as a method of capturing and harnessing its tourism potential as a strategy of economic development.

This leads, however, to a different lesson for liberalisation and tourism, namely that of the pace of economic liberalisation. Egypt provides a case study in the pace of tourism reform, the social and political impacts of reform and tourism, and the ways in which tourism and economic liberalisation can have both a positive and negative affect on each other. One example of this was the possibility of "over-liberalisation" of tourism — an outcome that finds its source in state attempts to extract from tourism as much economic development impact as possible. Beyond this, and despite the risks inherent in too rapid an expansion, the development of tourism in Egypt has proven to have a strong influence on economic liberalisation program. In all three case studies, tourism has been a litmus test for the economic reform process, and the pace of more general economic liberalisation has typically been determined by the successes, or failures, in the reform of tourism and in tourism development strategies more broadly. In other words, changes to tourism policy have served as a political and economic litmus test for more wide-ranging

¹³ Robert A. Poirier, "Political Risk Analysis and Tourism", *Annals of Tourism Research*, 22, 1, 1995, pp. 157-171.

economic reform. The initial reforms by Sadat were in the tourism sector, and once tested were implemented more broadly across the economy under the banner of *infitah*. In Egypt's reforms in the 1990s, tourism has been propounded as an initial sector for privatisation, as well as for the political ease with which state-owned tourism assets can be sold. Likewise but to a lesser extent in Syria, tourism was given a pivotal position in the initial reforms of the first *infitah* as a litmus test for further reforms, many of which followed in the second *infitah* of the 1980s.

The thesis has also argued that one of the lessons for economic liberalisation in the Middle East is that tourism is not an effective substitute to economic reform. Tourism may, in some circumstances, serve as a useful counter to the social impacts of liberalisation. This is a key source of state tourism strategy in the region, although its affects are often slow in coming, unlike those stemming from liberalisation. However tourism is also easily damaged by events external to the reform process. In the early 1990s, for example, tourism did not compensate for the costs of macroeconomic reform in Egypt because it had been so badly affected by, first, the 1990-91 Gulf war and, later, by the Islamist attacks on tourism. The situation in Jordan during the early 1990s was similar: soon after signing the 1989 agreement with the IMF, Jordan's tourism industry was catastrophically damaged by the Gulf war and its aftermath. Syria — as well as Lebanon, and even Israel for that matter — have found it extremely difficult to develop and reform the tourism sector during periods of regional instability and tension stemming from the Arab-Israeli conflict and the peace process.

One final point is on the pace and order of economic liberalisation. This has been a source of considerable scholarly debate within the disciplines of both economics and political science. In general terms, reforms have often been initiated as a response to economic crisis rather than in a systematic, strategic manner. Hence policies such as privatisation have been pursued ahead of some more basic measures

such as macroeconomic restructuring. McKinnon's¹⁴ order of economic liberalisation — which argues that macroeconomic stabilisation and price decontrol are the necessary first steps in reform, especially in the context of trade liberalisation — has not generally been followed by reforming states in the Middle East. Instead, as demonstrated by the case studies here, political considerations and expediency have dominated the reform agenda. Given this, the next stage in the reform process will be interesting. If and when the need for further economic liberalisation becomes dire, the response to reform and the methods by which it is undertaken will be complicated by the current position in which many states have placed themselves.

The financial and economic nature of tourism, and the logic used by the state in encouraging tourism, is not likely to change in the foreseeable future, especially as tourism in the developed world evolves and expands into new forms of travel. New trends in tourism, such as ecotourism and cultural tourism, hold some promise for the further development of the industry in the developing world as much (or more, even) than the developed. Given such prominence in the political economies of developing states, it would be remarkable if the relationship of tourism to economic liberalism and liberalisation did not develop and integrate further, whatever the outcomes of particular reform programs.

¹⁴ Ronald I. McKinnon, *The Order of Economic Liberalization: Financial Control in the Transition to a Market Economy*, 2nd Ed (Baltimore: The Johns Hopkins University Press, 1993).

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